

From Knowledge to Wisdom

ISSN 1537-1506 CBSN 270B0069

DOI:10.17265/1537-1506

# Chinese Business Review

Volume 15, Number 12, December 2016



David Publishing Company  
[www.davidpublisher.com](http://www.davidpublisher.com)

# Chinese Business Review

Volume 15, Number 12, December 2016 (Serial Number 162)



David Publishing Company  
[www.davidpublisher.com](http://www.davidpublisher.com)

**Publication Information:**

*Chinese Business Review* is published monthly in hard copy (ISSN 1537-1506) and online by David Publishing Company located at 616 Corporate Way, Suite 2-4876, Valley Cottage, NY 10989, USA.

**Aims and Scope:**

*Chinese Business Review*, a monthly professional academic journal, covers all sorts of researches on Economic Research, Management Theory and Practice, Experts Forum, Macro or Micro Analysis, Economical Studies of Theory and Practice, Finance and Finance Management, Strategic Management, and Human Resource Management, and other latest findings and achievements from experts and scholars all over the world.

**Editorial Board Members:**

Kathleen G. Rust (USA), Moses N. Kiggundu (Canada), Yutaka Kurihara (Japan), Christian Seiter (Germany), Agnieszka Izabela Baruk (Poland), Kazuhiro TAKEYASU (Japan), Marvin E. González (USA), Roberta Guglielmetti Mugion (Italy), Natalia Petrovna Kusnezova (Russia), Shelly SHEN (China), Moira Polyxeni (Greece), Sarath WSB Dasanayaka (Malaysia), Bonny TU (China), Carlos Salcedo-Perez (Columbia), Aysegul Yildirim kaptanoglu (Turkey), Francisco J. Valderrey (Mexico), Reza G. Hamzaee (USA), Luis Abel da Silva Filho (Brazil)

Manuscripts and correspondence are invited for publication. You can submit your papers via Web Submission, or E-mail to [economists@davidpublishing.com](mailto:economists@davidpublishing.com), [business.review.USA@hotmail.com](mailto:business.review.USA@hotmail.com). Submission guidelines and Web Submission system are available at <http://www.davidpublisher.com>.

**Editorial Office:**

616 Corporate Way, Suite 2-4876, Valley Cottage, NY 10989, USA E-mail: [economists@davidpublishing.com](mailto:economists@davidpublishing.com)

Copyright©2016 by David Publishing Company and individual contributors. All rights reserved. David Publishing Company holds the exclusive copyright of all the contents of this journal. In accordance with the international convention, no part of this journal may be reproduced or transmitted by any media or publishing organs (including various websites) without the written permission of the copyright holder. Otherwise, any conduct would be considered as the violation of the copyright. The contents of this journal are available for any citation, however, all the citations should be clearly indicated with the title of this journal, serial number and the name of the author.

**Abstracted / Indexed in:**

Database of EBSCO, Massachusetts, USA  
Ulrich's Periodicals Directory, USA  
ProQuest/CSA Social Science Collection, PAIS, USA  
Cabell's Directory of Publishing Opportunities, USA  
Summon Serials Solutions, USA  
ProQuest  
Google Scholar  
Chinese Database of CEPS, OCLC  
ProQuest Asian Business and Reference  
Index Copernicus, Poland  
Qualis/Capes Index, Brazil  
NSD/DBH, Norway  
Universe Digital Library S/B, ProQuest, Malaysia  
Polish Scholarly Bibliography (PBN), Poland

SCRIBD (Digital Library), USA  
PubMed, USA  
Open Academic Journals Index (OAJI), Russia  
Electronic Journals Library (EZB), Germany  
Journals Impact Factor (JIF) (0.5)  
WZB Berlin Social Science Center, Germany  
UniMelb, Australia  
NewJour, USA  
InnoSpace, USA  
Publicon Science Index, USA  
Turkish Education Index, Turkey  
Universal Impact Factor, USA  
BASE, Germany  
WorldCat, USA

**Subscription Information:**

Print \$520  
David Publishing Company, 616 Corporate Way, Suite 2-4876, Valley Cottage, NY 10989, USA  
Tel: +1-323-984-7526, 323-410-1082 Fax: +1-323-984-7374, 323-908-0457  
E-mail: [order@davidpublishing.com](mailto:order@davidpublishing.com)  
Digital Cooperative Company: [www.bookan.com.cn](http://www.bookan.com.cn)



David Publishing Company  
[www.davidpublisher.com](http://www.davidpublisher.com)

# Chinese Business Review

Volume 15, Number 12, December 2016 (Serial Number 162)

## Contents

<b>General Aspects of Financial Law</b>	557
<i>Tomáš Hulkó</i>	
<b>Study on the Economic Logic of “The Belt and Road” Initiative of China</b>	573
<i>CHEN Yongjun, LIU Yongfeng</i>	
<b>A Roman Funerary Monument From Šipovo</b>	585
<i>Radmila Zotović</i>	
<b>Access to Credit by SMEs and Implications for Economic Growth in Nigeria</b>	591
<i>Afolabi Babatunde, Ekpenyong Keziah Yemisi, Akomolafe John, Awoyemi Olanike Bosede</i>	



# General Aspects of Financial Law

Tomáš Hulkó

Pan-Pan-European University, Bratislava, Slovakia

The aim of this article is to outline the general parts of the legal branch called financial law. It is intended as the first part of a series of articles outlining the topic in detail. The aim of the submitted contribution is to demonstrate that the financial and legal aspects created the basis of economic development of the regions from the early beginnings of human society. Social relations constituting the subject-matter of the financial law had been developing, changing, and had become established before the financial law itself has been constituted. These relations seem to have been present from the very beginning of the existence of the human society. Regulatory acts associated with regulation of these relationships embodied solidarity and methodological specificities. The specificity of the subject-matter of regulation, solidarity and methodological specificities of the financial, and legal standards sufficiently define superstructure with a natural law character. The superstructure is based on constitutional system of national states after the EU integration has been completed on the EU law. As we can evaluate retrospectively, the transfer of financial law competencies in Brussels was a failure. Since the political union was established through the Lisbon treaty in 2009 the European sovereign debt crisis emerged and ravaged the EU until today.

*Keywords:* financial law, public finances, history, development, economy, hegemony, sovereign debt crisis

## Introduction

The events of World War II have had an extraordinarily significant influence on the theoretical legal thinking. The change mainly occurred in awareness of non-human nature of positive law. A theoretical concept has been formulated which forces, in certain circumstances, the law to be considered a non-law (Holländer, 2012). The Radbruch Formula<sup>1</sup> found its way to the judicature of the Federal Constitutional Court of Germany through philosophical and legal debate.

Historians believe the disgusting behaviour of Nazis is linked to the Great Depression that occurred in the 1930s of the 20th century. Europe is currently recovering from an unprecedented crisis shock. The crisis showed that the positions of the positive law and justice in the economic area have drawn apart from each other. New financial regime is supposed to bring a solution to this in the EU. It is mainly focused on economic

---

Tomáš Hulkó, Ph.D., Dr., research fellow at the Institute of Financial Law at Pan-Pan-European University, Bratislava, Slovakia.

Correspondence concerning this article should be addressed to Tomáš Hulkó, Fakulta práva PEVŠ, Tomášikova 20, 82102 Bratislava, Slovakia.

<sup>1</sup> In reaction to the crimes of National Socialism, Radbruch formulated his thesis that later on became famous as the “Radbruch formula”: “The conflict between justice and the reliability of the law should be solved in favour of the positive law, law enacted by proper authority and power, even in cases where it is unjust in terms of content and purpose, except for cases where the discrepancy between the positive law and justice reaches a level so unbearable that the statute has to make way for justice because it has to be considered “erroneous law” (“*unrichtiges Recht*”). CF: RADBRUCH, G.: *Der Mensch im Recht (Man in Law)*, 3rd ed., Göttingen: Vandenhoeck & Ruprecht, 1957, as referenced in: Holländer 2012.

development of the Union's regions and the EU<sup>2</sup> region on the globalised market. The strategy Europe 2020 and European semester is supposed to bring qualitative changes in the co-operation of nations.

Injustice and inequality between "persons" have increased enormously in the EU member countries of the 21st century. Exclusion of a significant part of inhabitants occurred. People become slaves who are forced to pay lifelong mortgages to secure their basic needs. Real salaries hardly achieve the level from the end of the 80th of the last century though banks and financial institutions make use of the most extensive forms of debt recovery. The interests of the creditors are secured harshly through relentless exercise of mortgage rights or through "voluntary" auction sales. Significant legal aspects, such as the interest of minor children, become irrelevant to the public exactors of bank usurers. On the other hand, the same banks are incapable of meeting their obligations. They beg the State not only to forgive them their debts but to provide them with financial packages with a view to preventing their collapse as well.<sup>3</sup> Where did the problem lie? What's happened to cause the living standards in the EU regions to stagnate and the debts of inhabitants and those of the public sector continually increase?

Question of choice is either revolutionary or legislative (evolutionary) method of carrying out fundamental reforms in the society re-emerges at present in an effort to cope with the persisting recession of the financial crisis. Enforced choice between the positivistic or natural methods application occurs again like many times before (Holländer, 2012). However, other questions emerge: Is it really impossible to find social interaction patters which would allow building a crisis-proof regulatory system? Can the economic development be predicted at least to such a degree that we would be able to resist crisis shocks? Answers can be found in Engliš's (1924) thoughts:

All sciences are beautiful regardless of their practical use. The thought control of own forms of thought and the outside world brings satisfaction and uplifting. Some sciences are proud to have beautiful subject-matters, such as astronomy. What can be said about national economy as a science? It is not an instruction, like it is sometimes presented. It is not an instruction for people how to get rich, but discovers the laws of human behaviour which are no less surprising and interesting than the laws describing circulation of suns. Wealth of nations, however, is not its only subject-matter, as Adam Smith said in the header of his book, but their hardship, poverty, work and self-denial. (Introduction. p. 5)

Engliš compares the science that studies the national economy to astronomy. Celestial mechanics patterns are still valid. It is impossible to hinder the sun from rising in the morning or the seasons of the year from alternating. Nevertheless, we can adjust our behaviour or social structures to periodically cyclical phenomena which are caught using scientific tools.

The paper's hypothesis is based on such notion. The outcomes of scientific exploration suggest that the financial and legal aspects which have been present during the entire period of development of human society have set the limites for economic development of the historical regions. In this respect, the pronouncements, which will be verified through the historical example method, can be summarised as follows:

Social relations constituting the subject-matter of the financial law were developing, changing, and became established before the financial law has been constituted. These relations seem to have been present

<sup>2</sup> The EU constitutes a so-called "centre of the world economy". The concept of a global economy's centre comprises a group of economically advanced regions promoting innovations in science and technology. A significant part of world economic potential is concentrated in these centres. The development of global economy after the World War II resulted in the formation of three major centres: the USA, Japan, and the European Union. Cf.: Cihelková, 2007.

<sup>3</sup> Whereas they take "rank and file" citizens and their savings hostage in the negotiations. "The Slovak Banking Association believes that the draft on bank levy of 0.4% not only endangers the stability of the Slovak banking industry, but will also result in more expensive products and services for the clients" said Monika Kuhajdová from the Slovak Banking Association.

from the very beginning of the existence of the human civilisation. Regulatory acts associated with regulation of these relationships embodied solidarity and methodological specificities. The specificity of the subject-matter of regulation, solidarity, methodological specificities of the financial, and legal standards sufficiently define superstructure what has the nature of natural law. The superstructure is based on constitutional system of national states.

### Current State of the Matter

*“Divinarum atque humanarum rerum notitia, iusti atque iniusti scientia”*<sup>4</sup>

Financial law as a branch of science strives to describe the reality at issue as closely as possible through the tools at its disposal. The problem of the general part of the financial law would ideally be solved by formulating universal pronouncements related to time- and space-free boundless and unlimited fields and infinite number of cases (Černík & Vicieník, 2005).

Popper says that social laws must be structured differently from mere uniform-based generalisations. The actual social laws must universally be valid which, however, can only mean that they cover the entire history of mankind being present in all historical phases of mankind's history (Popper, 2000).

The natural law theory suggests that the positive law origin was preceded by the existence of super-positive natural law. The positive law as a certain type of derivate should therefore be consistent with the natural law. In this sense, the iusnaturalists have been trying to get to know the natural law from ancient times. On this understanding of law or legal science, in a way it is a tool for knowing the facts of natural law.

As far as financial law is concerned it holds theoretical attempts to define it, as an independent branch of law, or attempts of definition of its institutions, positive legal approach prevails over the natural law one. Theoretical considerations about the natural and legal character of the financial law cannot be found in professional literature sufficiently, as it deserves.

Of course, financial law institutions exist which do not admit such efforts. It is a matter, for example, of the law on the state budget; it hardly can be considered to be super-positive and constant if new law is established on an annual basis based on a social consensus. This, however, it does not mean that the financial and legal regulation method cannot have a natural legal origin.

Nowadays, when analysing particular legal standards, it is completely impossible to specify whether it is a matter of:

- (1) initial effort to discover some natural legal patterns.
- (2) or it is a matter of a standard set forth on the basis of, or through modification of a legal standard (or positive legal phenomenon) existing beforehand.

If it is a matter of initial attempts to create law and legal system, the latter is practically out of the question. If there was no standard which could inspire the legislator in creating standards, then it must be a matter of initial (sincere) endeavour to discover a natural legal pattern.

If people living at the end of the Neolithic period, in the pre-state social system, unaffected by legal knowledge or knowledge of law, not attempting to create a legal system, then it must have been a whole bunch of sincere attempts to discover something natural. In all likelihood, they were based on ethical and religious regulatory systems.

---

<sup>4</sup> Ancient definition of jurisprudence “the knowledge of matters divine and human, and the comprehension of what is just and what is unjust”.



On this view, it can be eye-opening to search into the oldest law codes. It can be said that if an institute appears in those laws, it is more likely of the nature of natural law. Vice versa, if an institute does not appear in the oldest codes of law, it more likely to have a positive legal origin.

In an effort to discover strictly universal declarations on general part of financial law, all stages of human development are being examined. From ancient times the legal science is an attempt to get to know the natural law. Given this, law or legal science is in a way a tool for getting to know the natural legal facts. The endeavour to discover so-far-unknown, generally valid patterns can result in development of new legal techniques<sup>5</sup>.

The financial and legal regulatory system is not only an artificial system purposefully created by people, but something natural which is essential for the existence of the society. Quite a number of non-ommitable patterns, where the financial and legal regulatory system is managed, are independent from people and existed without the necessity to be discovered by people and not depending on that. This can be substantiated by the fact that state systems were created and successfully continued at various places of the ancient world, isolated from each other, approximately in the same period. The whole point is that it is a system whose internal patterns are given (by God) or can be known.

The findings of solution to the issue of general part of the financial law help to build strictly general social laws. The presence of financial and legal regulation method of human society in various historical forms is a general and strictly universal phenomenon.

The fact is that the financial and legal relations are not established and changed and do not cease to exist exclusively based on acts done by public authorities, but sooner it will be through fulfilling the legally set conditions which are decisive for the origination, changeover, or disappearance of the particular relationship (Mrkývka, 2004). The above-said implies that the financial and legal facts have a special meaning in the financial law conception and in comprehending of those patterns which manage the financial and legal relationships.

The financial and legal regulation method is characterised by special perceivable specificities which have to be taken into account when the financial and legal relations are being established. The financial and legal system of the region<sup>6</sup> is to be set in such a manner that the specificities could concurrently become apparent at one time.

### Scientific Method

According to Rokeach (1973), "The conception of values is also capable of unifying (under standard circumstances) obviously different interests of scientific disciplines dealing with human behaviour" (p. 13).

Facilitating the transition from the unknown to known constitutes a fundamental purpose of the scientific exploration. In other words, predicting the unknown is based on known facts. The transition is usually classified as prediction. For the sake of simplicity, it can be said that the fundamental purpose of the science consists in creation of such pieces of knowledge which enables explanation of processes and phenomena that occur in the world. To be able to predict something we need to know necessary correlations between facts. The

<sup>5</sup> Physics can be used as an analogy. Physics is a science that involves the laws of structure, qualities and movement of non-living forms of the matter. Based on observation and quantity measurements, it leads to discovery, mathematical formulation and practical technical application of basic laws of nature. In this respect, the research on the rules of natural law in law or legal science results in practical, technical application of these relations. (Open Encyclopaedia of Philosophy: *The Subject-matter of Physics (online)*).

<sup>6</sup> In the broadest sense of the term.

term for such proceedings in the scientific exploration terminology is explanation. Apart from the ability to predict phenomena, the nature of science consists in providing us with instructions how to successfully bring one's intentions to life, and whether it is a matter of invoking desired phenomena or managing them. In order that the scientific exploration would make sense, it should fulfil the following functions:

- (1) Description—consists in description and classification of processes and phenomena;
- (2) Explanation—consists in explanation of occurrence of matters, processes, and phenomena;
- (3) Prediction—or forecasting of occurrence of matters, processes, and phenomena;
- (4) Comprehension—of the context of the occurrence of matters, processes, and phenomena;
- (5) Providing the possibility—management of the occurrence of matters, processes, and phenomena.

It must be noted that, in this respect, the ancient states had a vast knowledge of market economy, on which they could not only predict the occurrence of financial phenomena, but invoked and managed them. The artificially invoked allocation waves, that is, through declaration of Amagi (general debt cancellation) were an analogy with artificially invoked contraction of economy during the economic cycle.

Ostracism which was applied in Greek city-states served similar purposes. Voting was held about who is the enemy of the state (city). In January or February, the Greek Popular Assembly decided whether or not such a voting should be held, on an annual basis.<sup>7</sup>

Financial administration as an enlivening mechanism of the state must necessarily not only strive for “keeping the state alive”, but—like the efforts of man are not targeted to mere existence—the state must advance and satisfy thereby the needs of its inhabitants. (Mrkývka, 2012, p. 98)

The ancient Egyptians believed that the human soul consists of three components. The first component “KA” represented vital essence distinguishing the living substance from the dead one. Vital functions which we are not able to directly control were attributed to this component. It includes the digestion process, heart beating, activities of glands, and passive nervous system. The “KA” maintenance requires that men's physiological needs would be satisfied.

“BA” is another component of the human soul; it corresponds to today's notion of personality. This component represented an active part of the soul. Human body activities which we are able to directly control, or are controlled by our mind, were attributed to this component. It comprehends the activities of striated muscles, eye control, and the ability to think. Active presentation of the individuals in the world was the main function of “BA”.

“ACH” is the third component. It came to existence as a result of connection of “KA” and “BA”. Now it could be intellect. The task of “ACH” was to maintain “KA”, which in fact meant gaining of physiological needs to maintain life through “BA”. “ACH” was further to provide opportunities for reproduction (gaining of partner's favour, education and protection of children, and the like).

The Egyptians applied their ideas of human soul to state organisation. They perceived their state as a living organism having metaphysical attributes of living creatures. Based on the above-said, “KA” represented

---

<sup>7</sup> If the decision was positive, ostracism would be held two months later, upon which every citizen could write a name of the person they deemed to be the highest danger to the community on a pottery shard (*ostrakon*). The shards would be deposited into vessels prepared in a reserved section of the agora. In the first round, the number of voting shards would be counted and if it exceeded the quorum of 6,000, the voting would be valid. In the second round, votes for individual names on the shards would be counted and the citizen whose name was mentioned the most frequently would have to leave Athens within two days for 10 years. They could not return under the threat of death. Ostracism was adopted as protection against tyranny and it was a means used in political fighting. It was not a penalty, the property of the ostracised citizen was not confiscated and they could find an intermediary to manage the property. After 10 years, they were allowed to return without prejudice. Cf.: (Bleicken, 2002).

working people (unprivileged layer of the society) constituting, as a passive element of the state, its basis. “BA”, being able to perform activities aimed at protecting or ensuring stability of special situation, represented state apparatus inclusive of army, scribes, and clergymen. Pharaoh represented “ACH” of the state which interconnected “KA” and “BA”. In other words, pharaoh was a link which coordinated the activities done by the state administration for the sake of maintaining the status when the people are able to advance. It thereby created conditions for the society not only to survive from day to day, but conditions for extended reproduction.

The inspiring example of people who have established the longest existing realm in human history simply requires analogy in today’s world. The financial and legal regulatory activities including financial administration represent an enlivening mechanism of the state which has and continues to have the potential, along with establishing conditions of supporting the society, to provide opportunities for extended reproduction of the society.

Financial administration has a broader meaning than the public administration of public financial means. From the aspect of subject-matter in which it spans administrative control (administration) of public finance and financial system. From the aspect of organisation the financial administration means a conglomeration of institutions empowered to carry out the financial administration (Mrkývka, 2008).

Wiener, the author of the modern definition of cybernetics, defined it as the scientific study of control and communication in the animal and machine. The word “cybernetics” comes from the Greek word “kybernetes”, that is, helmsman. The word “cybernetics” corresponds to Plato’s classic idea of governance and governor—a helmsman taking out a ship (municipality) from tempestuous waters to a safe place (Meyers, 2002).

In fact, many of the belief systems of different cultures and civilizations show an interesting similarity regarding the nouns, with which they describe the parts of the soul. The Hebrew contains a similar teaching regarding the three parts of the soul. According to Hebrew scholars the soul of a living person consists of three parts. Kaplan (1992) summarizes the teaching in the handbook of Jewish thought followingly. The *neshama* is affected only by thought, the *ruach* by speech, and the *nefesh* by action (Aryeh, 1992). Plato expresses a similar view, by categorizing the parts of the soul. The parts are located in different regions of the body: the *logos* is located in the head, the *thymos* is located near the chest region, and the *eros* is located in the stomach. In Plato’s works the three parts of soul represent the castes of the society. Each part of the whole has to work together to form a complete society.


Egyptian names of the parts of the (living) soul			
	Ach	Ba	Ka
Hebrew names of the parts of (human) soul	נשמה Neshama	רוח Ruach	נפש Nefesh
Greek names of the parts of the soul (Platonic)	Λόγος Logos	πνεῦμα Pneuma	ἔρως Eros
As used today	Mind	Soul	Hearth

Figure 1. Different symbols—same concepts.

What matters most in case that the systems are created intentionally is that the unit at issue would show desirable behaviour. In this respect it is important to achieve the target behaviour of the individual elements of

the system. The target behaviour of the individual elements of the system must be in compliance with the total arrangement of links and relationships among them so as to ensure the desirable target behaviour of the system as a whole (Grůň, 2009).

From the aspect of systems theory, given the ambient area, the system is a relatively closed unit consisting of elements. The system is further defined by its structure and functions of its elements. It works based on patterns which differ from the patterns pertaining to the work of the single elements of the system. Structure means interrelated network of links and relations between the elements (Grůň, 2009).

The public financial activities, in a larger sense, comprehend financial and legal standards modulating the social relations associated with generating, redistribution, and use of public goods. The financial and legal regulation is to first of all ensure sources for functioning of the state apparatus. In principle, the state cannot exist without having such a component.

On the other hand, the public financial activities encompass mechanisms regulating the fundamentals of the monetary system existence and provision of functioning of the financial market (Mrkývka, 2012).

Basic categories appearing in the public financial activities area are: public authority, public interest, and public finance. The up-to-date results of social sciences, historical and empiric approach outline the origin and development of these fundamental, related, and national economy terms.

It can be said that people were longing for the existence of public finance and fulfilment of its functions. In case of lack of these assumptions, state could not be established, or overcome time periods of the poor as a group. Given these facts, it is interesting to compare the facts where the scripts originated and why it counted in general.

The notion “public finance” has two basic meanings: practical activity of the public administration and theory (Hamerníková & Kubátová, 2004). The duo Hamerníková and Kubátová have elaborated a definition which will further serve as a theoretical basis.

The term “public finance” denotes specific financial relations and operations running in the economic system between the public administration authorities and institutions on one hand and the other entities on the other hand (that is, citizens, households, companies, not-for-profit organisations, and the like). (p. 16)

The above-mentioned definition assumes knowledge of terms, such as public administration, financial relations, and economic system. At first glance, it seems to be obvious that it is a matter of an abstract global term, artificially originated as a theoretic instrument or a scientific discipline. However, just the opposite is true. The term public finance is now used to denote system which in a manner was a prerequisite of establishment of society along with patterns regulating the relationships existing inside it; the patterns works strictly logically subjected to physical-like patterns.

Functions of public finance are as follows:

- (1) allocation function;
- (2) redistribution function;
- (3) stabilisation function.

Allocation function represents an effort to secure material needs necessary for the individuals of the society to survive. Redistribution function means an effort to reduce social inequalities and to increase solidarity in the society. Stabilisation function represents an effort to conserve the status of the society and an effort for a status quo, which means preservation of the society in general. The work of Uhlig (1992) says:

Writing and counting have identical origin. The symbols which marked things have been fixed with a number; whereby their amounts were stated are close to each other. This, of course, means that culture was based on economic thinking. Those who consider materiality to be an enemy of culture in general will not like this sentence. The inscribed, clay, Sumerian tablets prove just the opposite. Many of the earliest texts are sales and purchase agreements, delivery notes, and accounts. (p. 2)

Economic thinking was most necessary in order to overcome the poor or unfavourable time periods. Those periods (seasons of the year) occurred in various parts of the country at irregular time intervals, duration, and probability, but repeatedly, which is typical for nature.

Awareness of those repetition patterns of nature was the first step for mankind towards colonisation of territories which are not equally favourable for human body during the entire year. Knowledge of duration of the poor season of the year (winter) and quantification of supplies made people possible to manage the supplies (goods) in such a manner in which the group would survive until the next favourable time period.

Man as a creature has not in fact changed since the beginning of human history, which means that our genetic structure in principle is the same like that of Neolithic people or before the Neolithic revolution happened. For our physical welfare we need quite small amount of food and can bear, or even need—from today's point of view—extremely much physical movement so as to remain healthy.

Welfare-related psychological needs have not probably changed markedly in the course of history though it can seem that the opposite is true. Despite the occurring of ideological struggles and the basic psychical values, typical for people, have remained more or less unchanged. Schwartz (1994) mentions the “universal conditions of human existence”, which includes:

- (1) needs of persons as biological organisms;
- (2) conditions unavoidably necessary for coordinated social interaction;
- (3) survival and welfare of the society;

Schwartz (1994) derived 10 types of values from three universal conditions of human existence different from the aspect of motivation. The three basic assumptions of human existence, however, apparently correspond with the functions of public finance.

It is hence possible that aside from the stable physical needs man also has more or less stable psychological needs. In order to ensure continuous development of the society, it is necessary to secure that not only the economic goods, but mental values, as described by psychology experts, would be made to be subject to the public finance system.

## Results

Egoists cannot voluntarily create collective economic system. If it is requisite necessary and if it lasts, then it is only if there is no other alternative. Egoists must be member compelled to solidarity through a legal standard. Public economy is then a compelled economy. Management of public relations falls under financial science. Standards regulating financial economy are subject-matter of legal science. (Engliš, 1929, p. 397)

Engliš (1929), a great thinker and theoretician, went down in history as a man pushing through his own special teleological and national and economic theory. Engliš's theory is built on the resolution where economic phenomena can only be completely known and comprehended if we will follow certain purpose and aim in the behaviour of subjects of economy which the individual subjects want to achieve. The subject-matter of investigation of the teleological method is motives of all subjects of economy inclusive of the state itself, companies, banks, individuals, and households. Engliš criticised Marxist theory and he held an opinion that

economic laws are given just like the physical laws (Zemánek, 2010).

The idea of a natural status of the society was formulated by several thinkers<sup>8</sup>. Their ideas are now harmonised based on knowledge from biology in the effort to achieve the most precise idea of the natural status of the society possible (Graham & Haidt, 2006).

Graham and Haidt say many research works have confirmed that despite of apparent cultural variability of standards and practices, a small group of ethical intuitions exists which can easily be found in all societies and even in other animal kinds. It namely is a matter of emotional reactions or answers which are automatically launched in situation associated with:

- (1) harm/care (such as sensibility and/or dislike towards signs of pain and hardship of others, mainly those young and vulnerable);
- (2) fairness/reciprocity (for example, negative reactions to those who fail to reciprocate goodness);
- (3) authority/respect (for example, anger toward those who fail to show due signs of respect and esteem).

Along with these three universal intuitions, two further intuitions are mentioned by them, widely spread, which span:

- (1) purity (holiness) (for example, disgust toward spoiled food, some sexual acts, and menses);
- (2) interest in/fears for one's group (for example, mutual help when attacked by a predator).

The fundamental existential problems which all human societies must cope with are solved through human culture. The specific human method of cultural behaviour stems from certain predispositions, but it has been solely changed into a form of a cultural system in case of human beings and thus it has become a reliable distinguishing sign of all human races compared with other animal kinds. Keller (2005) believes these are the most significant elements of human culture:

- (1) ability of symbolical communication;
- (2) ability to institutionise one's behaviour;
- (3) ability to create legitimate structures of organised authority (Graham & Haidt, 2006).

All abilities mentioned above help people find solutions to a number of problems and enable a group to survive collectively in certain environment in a cultural way. Ritualism of human communication, ritualism of organisation, and ritualism of human behaviour significantly reduce the rate of rationality in behaviour of homo sapiens (Keller, 2005).

Ritualism was a milestone in the development of human society. The human culture which was formed step-by-step embodied the stems of regulatory systems. Regulatory systems of ethics, law, and religion have gradually been split from this entity of regulatory and ritualised behaviour.

Let's imagine the life before the Neolithic revolution. The main source of nourishment in the hunter-gatherer society was commodities that required mutual cooperation to secure.

This can be exemplified by the fact that hunting was participated by more hunters and women were keeping the home fires burning in the meantime. It goes without saying that the food supply gained by hunting had to be split in an admissible manner among the group members. Hence, something similar to "social consensus" had to be created.

It most likely happened in the similar form as one can witness in the animal realm. The catch mostly has to be divided at the presence of the group members in order to prevent controversies and violence in the group. A

---

<sup>8</sup> For example: Hobbes, T., Rousseau, J. and Locke, J.

dominant individual divided the catch in a high place or in a big and well visible stone according to the needs and merits of the individual group members.

The ceremonies, social functions, and ethical conceptions have their origins in the early phase of the development of the society.

It is noticeable that the development happened in a number of remote locations of the world at one time and independently from each other, whereas the individual groups came to very similar method of organisation of the society: the state. The reasons why the state forms were similar lie in the basic physiological and psychological presumptions of man as a biological creature (Popper, 2010).

### Discussion

*“When Marduk commanded me to guide the people rightly and to direct the land, I established law and justice in the language of the land in order to promote the welfare of the people.”<sup>9</sup>*

Hammurabi became a king of Babylon in 1792 BC and has reigned for more than 10 years. During his reign, he turned the city into a busy trading and economic center. Historians attribute Hammurabi's success to his belief in the idea of a fair government. He also expressed his conviction through adoring Marduk, God of justice, from whom Hammurabi derived his power. He is known for his laws regulating the personal legal situations based on the principle—an eye for an eye and a tooth for a tooth.

Things less known, though not less important, are on the contrary his actions in the public administration area. He divided the empire in administrative regions in which he installed trusted commanders who could act autonomously to certain degree.

It is beyond imagination that “know-how” of organization of a society could be conceived during the lifetime of one man. We do not know much about his ancestors, who certainly also took part in creating a successful method of the public administration regulation, since they have not left so many footprints in the history like Hammurabi.

The notion of public administration itself is used to denote public authority in the sense of organization. In such a case it denotes the public administration bodies or more precisely, administration bodies. Further, the notion of public administration is also used from a functional aspect. In such a case it denotes the execution of the public administration through performing sub-legal and prescriptive activities of the said bodies. In a sense, it embodies specific position of the public authority of local administration bodies.<sup>10</sup> In other words, public administration can be defined as an administration of public affairs which are primarily ensured by the public administration bodies on one hand, and as a set of administrative activities associated with the execution of public authority in the state on the other hand.<sup>11</sup>

A need thus arose to define the notion of authority and, narrowly constructed, the notion of public authority. The primary function of the state was to foster the public authority in the society. On general level, the public authority also embodies notions as authority does; authority basically is an ability to force somebody to behave in a certain manner and—should the manner of behavior be breached—to enforce the desired behavior and, as the case may be, also to punish the violator.

<sup>9</sup> The Code of Hammurabi, Section 6, in Klíma, J.: *The most ancient human laws: Hammurabi and his antecedents* (1st ed.). Prague: Academia, 1979.

<sup>10</sup> Cf. Průcha, P.: *Administrative law—general part* (8th ed.). Prague: Supplement 2012. ISBN 978-80-7239-281-0.

<sup>11</sup> Cf. Horzinková, E., & Novotný, V.: *Procedural administrative law (mimeographed)* (2nd ed.). Prague: Leges, 2008. ISBN 978-80-87212-01.

This indicates that in principle every individual has the power of authority. It is a typical feature of the public authority that commonly called subjects of public authority dispose of the public authority and execute it in the public interest and with a view to ensuring it. The public authority serves for arranging for the desired status of relations in the society.<sup>12</sup>

The organization in which people exist is regulated through the relations of dominance and sub-dominance among the individuals and groups. Power inequality demonstrated in the division to dominant and subordinated groups not only occurs across all forms of human coexistence, but is also typical for the other creatures existing within a social system. The animal world knows hierarchy of authority which is clear and functional from a social aspect; thanks to it the animals living in groups are able to suppress aggressive behavior in mutual contacts. Social hierarchy lies in the proportion of physical force respected by the other members of the group. Menacing behavior and behavior express subordination serve for reproduction of the hierarchy. Rituals of menace and subordination organize the life of the group without the necessity to use open aggression or to be exposed to such aggression. Power inequality in its most apparent form is not hence an invention of human society. In the human society, the power inequality (social hierarchy) does not hinder but from far open violence so reliably like it is in case of animals living in social systems. The history, on the contrary, shows that it is just casting of doubts on the role of the existing hierarchy which initiates many conflicts (civil wars, social struggles, and the like). Skills in using the symbols enabled the man to try to strengthen the existing relationships of dominance and subordination through changing it into the form of authority and obedience. The systems of veracious symbolic legitimacy render possible to obey the commands of the authority which are a combination of a public authority and lawful authority.<sup>13</sup>

Keller believes that the ethnological researches have proven that the power regulation of the interpersonal relationships is present in all types of societies, inclusive of power inequality which is an inevitable part of it. No human group can survive without similar regulation in the long term. As far as the development of the political and regulation system is concerned, some stages can be distinguished there they are not, however, interlinked through any historical inevitability.<sup>14</sup>

(1) At the time when the political authority was being developed, no government existed in the society, no special groups or individuals specialized in surveillance over the application of obligatory rules and standards of behavior. Standards regulating collective action were handed over along with the other knowledge through traditional wisdom of old people and religious myths of supernatural sanctions. Exclusion from the group was the major punishment in case they were breached. Right of revenge was another sanction; it was also embodied in traditions. Though political authority is extremely diffusional, it does not dispose of any special staff, and it has compulsory nature. This most simple state of organization was typical for the Eskimos, the Semangs of Malaysia, Pygmy peoples, the Mbuti of Zaire, and the like.

(2) Role of a permanent mediator of disputes as a part of the group was typical for the next stage of the power constitution. In most cases, agriculture appears, though in a very ineffective form. The attitude towards other groups is in principle hostile.

(3) This constitutional phase has instituted a rule saying that some individuals, members of the society, take decisions to affect the entire group. The leaders, however, are not subject to a hierarchical structure.

<sup>12</sup> Cf.: Průcha, P.: *Administrative law—general part* (8th ed.). Prague: Supplement 2012. ISBN 978-80-7239-281-0.

<sup>13</sup> Keller, J.: *Introduction into sociology* (5th ed.). Prague: SLON, 2005. ISBN 808-642-939-3.

<sup>14</sup> Keller, J.: *Introduction into sociology* (5th ed.). Prague: SLON, 2005. ISBN 808-642-939-3.



Raising small animals appears and productivity of cultivation of soil increases.

(4) Nevertheless, for the first time, it was the role of a leader that changed into a real flesh and blood man. This is the stage of evolution where specialized political roles could be found for the first time. There were persons who permanently wanted to decide for the others, but their power remained divided into various areas (for example, head-chief in peace and war) where their competence was strictly specified. A half-savage mode of agriculture was transformed into permanent soil cultivation and raising of small animals. The entire cultural ethnicum formed a whole which was politically unified and had hostile relations to the whole neighboring. The competencies of the leaders were strictly specified. A cultural group came into being.

(5) Ruler becomes an independent entity whose commands were obligatory for all people; he, however, still could not dispose of specialized bodies in order to enforce his commands. He governs and applies the same mechanisms like those which regulated the obligatory actions at the previous stages: pressure of the opinion, fear of supernatural sanctions, and threat of exclusion from the group. The ruler and the ruled, however, can easily be distinguished in this stage (and we still cannot talk about a state). There is no significant economic inequality there, the rulers still work. Ceremonies of exchanges are made between different tribal entities on a regular basis in which the economic and purely ceremonial features are mingled and closely overlapped with each other.

(6) More possessors of delegated power appear who begin to be organized in a hierarchical structure. Exploitation of other people's work appears in this stage for the first time, which however, has more military-related than economic reasons. Military aristocracy is a pre-stage of later class stratification. On top of that, cultural and ethnic heterogeneity has developed in the group. The different ethnic groups often become the basis for stratification of a caste-like type.

(7) Rulers gain monopoly power to legitimately commit violence. At this stage of evolution, those who believed to have been injured stopped taking law (right to revenge) into their own hands. The definite rise of the monopoly on violence laid down assumptions for constituting the public authority. The rulers can dispose of a specialized instrument for the execution of the authority, which was the military aristocracy. This stage of pre-state evolution or an early state was typical for the Etruscans, Scythians, or Greek society in the 12th-9th century before Christ. Massive exploitation has taken the form of slavery or draining off the foreign population through a tribute. The political structure helmed various cultural and language sub-groups, often in the form of caste differentiation.

(8) Further development can be characterized by the development of a specialized apparatus of public authority. The possessors of political power differ markedly from the rest of the society. They make a claim to dispose of the entire society's sources, as a rule, on behalf of all people.<sup>15</sup>

Keller substantiates the development by several hypotheses, of which the most compelling one is the economic hypothesis stemming from the thesis saying that the political (power) superstructure depends on the condition of the economic base. The existence of specialized full-time rulers just like the existence of professional administrative and military apparatus is impossible without producing surplus product which these strata ensure from an economic point of view. The public (political) authority requests the economically active majority of population to pay indirect allowances (taxes) and direct ones (tribute, robot, and military service).

---

<sup>15</sup> Keller, J.: Introduction into sociology (5th ed.). Prague: SLON, 2005. ISBN 808-642-939-3.

### Conclusion

When analyzing the single stages of establishing of the public authority, the following facts must be highlighted:

The power regulation of relationships is a must for creatures existing within a social system inclusive of people. The existence of (public) authority is independent from the existence of the coercive apparatus. Diffusional political power without a specialized (coercive) staff can have the same coercive nature. From this it follows that the activities of the possessors of power are not directly linked to people's behavior in the society. People behave the way like they do because they consider it to be correct. People's behavior is predominantly determined by their own conviction and concept of world which they support. This is proven by the fact that no coercive apparatus was in existence during the first six phases of the development of the power regulation system.

As a matter of fact, the formation of the coercive apparatus did not mean an important turning point in the possibilities of the ruling elite to exert influence on the means of people's behavior. The interventions of the coercive apparatus were sporadic at the beginning and the threat it disposed of was not, from the point of view of the individual's subjective experience, much worse than the mechanisms which regulated the obligatory acting before .

The creation of the coercive apparatus did not mean suspension of the activity of the regulatory mechanisms which were the determinative factors before. Fear of the supernatural or more precisely, belief in supernatural and the pressure of the (public) opinion are determining factors in forming internal conviction of people. Internal conviction, that is, belief in one's ability to distinguish between good and evil and interpretation of (natural) world associated with it constitute primary influences determining the behavior of individuals and the social interactions among them until today.

The ruling elite had to understand these correlations existing during the early phases of the human evolution. Medicine men and rulers derived their authorities from higher powers (Gods). While most of the group could indeed be convinced that medicine man communicated with the supernatural beings, at least the medicine man himself must have known that it was far from the truth. It is highly unlikely that somebody, relying on interventions of gods could rule efficiently and effectively. In reality, the rulers relied on their own knowledge and abilities when determining the running of the society. If they really could have relied on the help of gods, the coercive apparatus, that is, army and military aristocracy, would have never been established.

There were just the imperfections in the mechanism of exerting influence on people through the fear of the supernatural which leads to creation of a structure in the society capable of maintaining the circumstances under which exploitation of labor of significant part of population occurred. The ruling elite presented itself as having a position where they could identify themselves with the will of God justifying thereby their actions. In case an individual acted against this will, he or she was then punished in the name of God.

For example, Hammurabi did not obtain authorization by God named Marduk in real sense of the term, but he built his empire through diplomacy, treachery, and wars. He did not rely on "divine justice", but prepared the most well-preserved and comprehensive code of laws in existence from that period engraved in stone. He did not rely on "divine care", but laboriously developed the centralized state administration system consisting of real flesh and blood people.

It is very similarly improbable that the duke Hungarian Vajk, would have decided to get christened merely upon God's command. The theory that he realized the power and political situation and on this understanding

of the matters tried to integrate his country into the structures of Christian kingdoms seems to most closely approximate the truth. The Nomad economy based on burglarious quests to Western Europe was not sustainable anymore and therefore he put an end to the pagan customs and thus he moved forward. It was a rational decision taken on the strengths of assessment of the situation; it was not taken by inspiration of God.

The public authority hence lies in the fact that people are willing to listen to it. Authority of a ruler was built on his ability to exert influence on the prevailing interpretation of world. Man as a social being feels a need to become a part of something bigger, something “superhuman”. He is therefore willing to accept the conceptions of supernatural punishment as a part of the interpretation of world. Biological assumptions are also the reason why we consider the public opinion important for us and why we do not want to find ourselves outside the group.

Man has a free will and acts according to his internal conviction. He is willing to submit to the will of a group or more precisely, accept the social role but only in so far as it is not in contradiction with his internal convenience to an unbearable extent. The ruler had never so much power to be able to force people individually to do or to suffer something. In case the government failed to correspond with the values which people promoted to a bearable extent, then the “application of Radbruch’s formula” necessarily came about. The events, such as overthrow of Achnaton, Spartakus insurrection, the Hussite movement, bourgeois revolution, or events which happened in Hungary in 1956 are situations when the system was inequitable to such an extent and so much estranged from the real values that the discrepancies became insupportable. In those moments, regardless of their own safety, people took up the cudgels and set face against their rulers. Man is not merely an animal that can variously be terrified, which renders possible to exploit his labor. Man is a being which was the reason of the origin of the power and economic superstructure. The power comes from the people; it is executed by the people and the people have the right and legitimacy to object to or take down its executors at any time.

In today’s world, it could be expected that the creation of the legal framework would match the values that are professed earlier than the social unbearable injustice. This is executed in real life, or all remains at the level of mere considerations as *de lege ferenda*.

Shortly, stable systems existed in the antiquity to eliminate the contradiction between justice and positive law. Before the system would become unbearable, the leaders made changes which reduced the inhabitants’ dissatisfaction level. The aim and contents of the power and regulation system are to ensure the material basis of existence of the society. The power superstructure depends in the condition of the economic basis in society. The existence of specialized rulers ruling in full time just like the existence of the professional administrative, military or coercive apparatus, respectively is not possible without producing the surplus product which economically ensures these strata. The public power requests to pay due payments from the economically active majority of population.

The investigation of the world’s historical regions shows that independently on the degree of development of productive forces and technologies, the successful developments in various periods and localities were based on certain more or less similar organizatory principles. In the introductory parts, in the context of the life of historical regions and advanced results of social and economic sciences, there is offered an analysis of financial and legal aspects of development of these regions as well as the development of various historical forms of financial and legal regulation. Here is an enumeration of elementarily organizationary, financial, and legal regulations from Ancient Egypt, Old Babylonian Empire, Old and New Testament as well as from The Middle

Ages. The three entities of individual and collective being of KA-BA-ACH in Ancient Egypt: contracts of purchase and sale, delivery notes, and accounts on clay tables of the Sumerian Empire, the creation of economic cycles abolishing debts (Jubilea) in each seventh year of the Sabbath—all this shows the elementary financial and legal instruments of constituting prosperity of the said region in the early phase of development of human civilization. The development through medieval forms of public finances gradually led to the constitution of a complex system of financial law.

It is clear that the correlance found throughout the whole stretch of scientific disciplines is the foundation on which financial law as regulatory system stands. These key-concepts are showed in Table 1.

Table 1<sup>16</sup>

*General Aspects of Financial Law*

Needs of individuals as biological organisms. (Securing of material needs necessary for the goods producers to be able to work)	Allocation function	Satisfaction of needs of the whole society	Social needs and their satisfaction	Functionalism (Zweckmäßigkeit)	Efficiency support
Conditions unavoidably necessary for coordinated social interaction	Re-distributional	Ensuring treasury income	Gathering, administration and use of the material basis of public sector	Justice (Gerechtigkeit)	Support to justice
Survival and welfare of the society	Stabilisation function	Tesaurition of a part of income	Public finance and public economy	Legal certainty (Rechtssicherheit)	Supporting stability
Basic assumptions of human existence (Schwartz, 1994)	Public finance functions (Tomášková, 2006)	Functions of superstructure “Államháztartás” (Hóman, 1921)	Categories associated with the term “Skarbowość” (Mrkvicka, 2012)	Purpose of law (Radbruch, 1957)	Functions of government (Samuelson & Nordhaus, 1995)

## References

- Černík, V., & Viceník, J. (2005). *Zákon a pravidlo v sociálně-humanitných vedách (Law and rules in social sciences and arts)* (1st ed.). Bratislava: IRIS. ISBN: 808-923-801-7.
- Engliš, K. (1924). *Národní hospodářství (příručka) (National economy (Handbook))*. Brno: Nakladatelství Fr. Borový v Praze.
- Engliš, K. (1929). *Finanční věda: Nástin teorie hospodářství veřejných svazků (Financial science: An outline of the theory of economy of public associations)* (p. 397). Prague: Fr. Borový.
- Graham, J., & Haidt, J. (2006). When morality opposes justice. *Social Justice Research*, 20(1), 98-116. doi: 10.1007/s11211-007-0034-z
- Grůň, L. (2009). *Právní regulace finančních, peněžních a měnových vztahů v České republice—věc veřejná (Legal regulation of financial, monetary and currency relations in the Czech Republic—A public affair)*. In *Zborník príspevkov konferencie Teoretické a praktické aspekty veřejných financí (In Theoretical and practical aspects of Public Finance Conference proceedings)* (1st ed.), pp. 65-75. Prague: Vysoká škola ekonomická v Praze. ISBN: 978-80-245-1513-7.
- Holländer, P. (2012). *Filosofie práva (Philosophy of law)* (2nd ed.). Plzeň: Čeněk. ISBN: 808-689-896-2, 978-808-689-896-4.
- Hóman, B. (1921). *A Magyar Királyság pénzügyei és gazdaságpolitikája Károly Róbert korában (The financial and economic policies of the Kingdom of Hungary during Charles I)*. Budapest: Scientific Association of Budavár.
- Hamerníková, B., & Kubátová, K. (2004). *Veřejné finance, učebnice (Public finance, textbook)* (2nd ed.). Prague: Eurolex Bohemia. ISBN: 809-027-521-4, 978-809-027-521-8.

<sup>16</sup> The first column contains basic preconditions of human existence; the second column contains the functions of public finance; the third column contains the extension functions “Államháztartás”; the fourth column contains categories associated with the term “Skarbowość”; the fifth column contains the purposes of the existence of law and the sixth column contains the role of the government. In lines 1-3, categories and notions from various scientific disciplines that are associated with the same social phenomenon are stated and distinguished by colour.

- Kaplan, A. (1992). *The handbook of Jewish thought* (2nd ed.). New York: Moznaim Pub Corp. ISBN: 0940118793, 978-0940118799.
- Keller, J. (2005). *Úvod do sociologie (Introduction to sociology)* (5th ed.). Prague: SLON. ISBN: 808-642-939-3.
- Mrkývka, P., Radvan, M., Pařízková, I., & Šramková, D. (2004). *Finanční právo a finanční správa (Financial Law and Finance Administration)* (1st ed.). Brno: Masarykova univerzita. ISBN 802-103-578-1.
- Mrkývka, P. (2008). Finanční správa—Součást realizace finančního práva (1st ed.). In *Zborník Konferencie Dny Práva 2008* (pp. 227-235). (Financial Administration—A part of application of the financial law. In *Law Days 2008 Conference Proceedings*). Brno: Masarykova univerzita. ISBN 978-80-210-4733-4.
- Mrkývka, P. (2012). *Determinace a diverzifikace finančního práva (Determination and Diversification of Financial Law)* (1st ed.). Brno: Masarykova univerzita. ISBN 978-80-210-6041-8.
- Popper, K. R. (2000). *Bída historicizmu*. Prague: OIKOYMENH. ISBN: 808-600-580-1, 978-808-600-580-5.
- Popper, M. (2010). Polarizované diskurzy týkajúce sa aktuálnych spoločenských tém. *Polarized Discourse on Current Social Issues*, 42(5). Bratislava: Sociológia.
- Radbruch, G. (1957). *Der Mensch im Recht (The human in law)*. Göttingen: Vandenhoeck & Ruprecht.
- Rokeach, M. (1973). *The nature of human values* (1st ed.). Michigan: Free Press. ISBN: 002-926-750-1, 978-002-926-750-9.
- Samuelson, P. A., & Nordhaus, W. D. (1995). *Ekonomie (Economy)*. Praha: Svoboda. ISBN 978-80-205-0590-3.
- Schwartz, S. H. (1994). Are there universal aspects in the content and structure of values? *Journal of Social Issues*, 50(4), 19-45.
- Tomášková, E. (2006). *Veřejné finance (Public finances)*. Brno: Masaryk Univerzity. ISBN: 80-210-4177-3.
- Uhlig, H. (1992). *Die sumerer*. Köln: C. LuebbeVerlagsgruppe. ISBN: 340-464-117-5.
- Zemánek, J. (2010). *Instantní ekonomie nejen pro začátečníky* (1st ed.). Kralice na Hané: Computer Media. ISBN: 978-80-7402-059-9.

# Study on the Economic Logic of “The Belt and Road” Initiative of China

CHEN Yongjun, LIU Yongfeng  
Renmin University of China, Beijing, China

“The Belt and Road” Initiative is one of the Chinese medium- and long-term national development strategies which are mainly to create a new driving force of economic growth and develop a new pattern of opening-up. Starting analyzing the background of international and domestic economy, “the Belt and Road” Initiative was put forward. This paper constructed the theoretical model of “the Belt and Road” in the abstract, and certified its inherent economic logic and provided a new perspective for understanding the economic nature of “the Belt and Road”. On this basis, this paper also analyzed the significance of “the Belt and Road” to China’s development and how to cooperate between China and European countries and between China and the North American countries. The results show that “the Belt and Road” initiative is conducive to combine the advantages of capital and capacity of China and the advantage of market of Central and West Asian countries and Africa countries to achieve the multi-win situation, and European countries and North American countries can join this initiative deeply by taking advantages of their technologies and so on.

*Keywords:* the Belt and Road, development of economy, economic interaction, the supply and demand, regional economic integration, win-win situation

## Introduction

Under the background in which the recovery of world economy is weak and monetary policies of developed economies are moved towards differentiation, many countries’ economies are facing difficulties. It needs new economic growth points or a new economic locomotive to drive world economy. After judging and considering the situation carefully, China is trying its best to integrate almost all nations’ strategies and policies into “the Belt and Road” and APEC to achieve a win-win situation.

From the perspective of domestic economy, since the reform and opening-up in 1978 and the comprehensive construction of market economy in 1992, China’s economy showed a sustained and rapid growth trend which was rare in the economic history. Behind this, the effects of three driving forces (investment, consumption, and net export) are self-evident: on the one hand, the investment facilitates capital

---

This paper is supported by the Key Research Institute of Humanities and Social Science in University of Ministry of Education of the People’s Republic of China, No. 16JJD790059.

CHEN Yongjun, Ph.D. in Economics, professor, Business School of Renmin University of China, Beijing, China.

LIU Yongfeng, doctor candidate in Economics, Business School of Renmin University of China, Beijing, China.

Correspondence concerning this article should be addressed to CHEN Yongjun, Business School of Renmin University of China, No. 59, Zhongguancun Street, Haidian District, Beijing, 100872, China.

accumulation and then promotes economic growth from the supply side<sup>1</sup>; on the other hand, consumption and net export facilitate domestic and external demand, and thus stimulate economic growth from the demand side. And now, “the Belt and Road” construction will not only promote the growth of investment directly (especially in the infrastructure sector<sup>2</sup>), but also contribute to the trade development indirectly.

“The Belt and Road” is short for the Silk Road Economic Belt and the 21st-century Maritime Silk Road. The key directions of the Silk Road Economic Belt are from China, via Central Asia and Russia, to Europe (the Baltic Sea); from China, via Central Asia and West Asia, to the Persian Gulf and Mediterranean; and from China to Southeast Asia, South Asia, and Indian Ocean. The key directions of the 21st-Century Maritime Silk Road are from Chinese coastal ports, via the South China Sea and Indian Ocean, to Europe, and from Chinese coastal ports, via the South China Sea, to the South Pacific Ocean<sup>3</sup>.

On April 7, 2013, Chinese President Xi Jinping put forward to build a regional financing platform to promote regional economic integration and improve regional competitiveness in the keynote speech of Boao Forum for Asia<sup>4</sup>. This became a preliminary conception for “the Belt and Road”. Subsequently, President Xi Jinping and Premier of the State Council Li Keqiang successively proposed the ideas to build the Silk Road Economic Belt and to build the 21st-Century Maritime Silk Road in a number of different occasions, and put forward to promote the construction of the Silk Road Economic Belt and the 21st-Century Maritime Silk Road by building the Asia Infrastructure Investment Bank and so on. On March 28, 2015, National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of China jointly issued “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”, and then “the Belt and Road” strategy was formally established as a national strategy.

It is very important to study the nature and logic of “the Belt and Road” initiative, because “the Belt and Road” Initiative involves the cooperation among many countries, and it is imperative for these countries to make an agreement about the core connotation of “the Belt and Road” Initiative so as to dispel their doubts. Understanding the reasons of putting forward “the Belt and Road” Initiative is good for finding the attractions of this initiative. Also pointing the development directions of this initiative can help all related countries to focus on the fields they may cooperate in the future. This paper is devoted to analyzing the economic nature and logic of “the Belt and Road” and clarifying how to cooperate between China and other countries.

This paper is organized as follows. Section 2 is literature review. Section 3 analyzes the domestic and international background of proposing “the Belt and Road” from a macroeconomic perspective. Section 4 proposes a basic model of understanding the economic nature of “the Belt and Road” from two different levels. Section 5 discussed the great strategic meaning of implementing “the Belt and Road” for China. Section 6 points out how to cooperate between China and European countries and between China and North American

<sup>1</sup> OECD (2013) estimated that capital contributed 59% to China’s economic growth from 1996 to 2001, 59.1% from 2001 to 2006, and up to 65% from 2006 and 2011. Minjie Dong and Yongmei Liang (2013) estimated that capital contributed 85.4% to China’s economic growth from 1978 to 2010. Even though these estimations were different, but all of them showed that capital contributed more than 50% to China’s economic growth (Chow & Lin, 2002; Wang, 2000).

<sup>2</sup> Many economic studies show that infrastructure construction significantly promotes the economic growth and social development of developing countries (Duflo & Pande, 2007; Kremer, Leino, Miguel, & Zwane, 2011; Duranton & Turner, 2012; McRae, 2015).

<sup>3</sup> National Development and Reform Commission, Ministry of Foreign Affairs, Ministry of Commerce of China, Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road [N]. People’s Daily, 2015-03-29 (4).

<sup>4</sup> Xi Jinping. Working together toward a better future for Asia and the world—the keynote speech at the opening plenary of the Boao Forum for Asia Annual Conference 2013. Xinhua: [http://news.xinhuanet.com/politics/2013-04/07/c\\_115296408.htm](http://news.xinhuanet.com/politics/2013-04/07/c_115296408.htm).

countries and Section 7 is conclusion.

### Literature Review

“The Belt and Road” Initiative is a very new research topic in China, because of its practical value and strategic significance, and many scholars chose “the Belt and Road” as their new research interests when this initiative was put forward at the first time. For example, “the Belt and Road” brought about several new research themes in geography, including geopolitical studies, foreign direct investment theories, optimization of transcontinental transportation, and so on (Liu, 2015). For implementing this initiative, some relations should be handled first, such as government-enterprise relations, central and local authorities’ relations, and so on (Li, 2015), and some questions should be answered first, as should it be based on multiple bilateral partnerships of cross-regional integration? (Chu & Gao, 2015). Also in the process of implementing “the Belt and Road” initiative, it will face a lot of barriers, such as heavy cost in infrastructure construction and its maintenance (M.-C. He, J.-B. Zhang, Y.-F. Zhang, & B. Tian, 2015). At the same time, “the Belt and Road” Initiative will have a great influence on the foreign investment (Yang & Yan, 2015), and it is beneficial to upgrade the related industries of China (Dong & Liang, 2015) and push the industrial transformation (Su, 2015). Although a lot of scholars from many aspects investigated “the Belt and Road” Initiative, but very few scholars did research about economic nature and logic of “the Belt and Road” (Huang, 2015). Answering the question why “the Belt and Road” initiative should be implemented is very important, and only other countries understand the economic nature and logic of “the Belt and Road” initiative, and they are willing to cooperate with China to implement this initiative. Therefore the topic of this paper is very meaningful and valuable.

### The Background of Raising “The Belt and Road” Strategy

#### The Recovery of World Economy Is Weak, and Emerging Markets Have Become an Important Growth Momentum

After the financial crisis in 2008, the world economy is recovering gradually. According to World Economic Situation and Prospects 2015<sup>5</sup>, issued by the United Nations, American GDP growth rate was 2.2% in 2013, and it would be expected to achieve 2.4% and 2.8% in 2014 and 2015. This is higher than the average GDP growth rate of developed countries (in 2013, the overall GDP growth rate of developed countries was 1.2%, and the expectations were 1.6% and 2.2% in 2014 and 2015). The growth rate of countries in Euro Zone was 0% in 2013, and the expectations were 1.3% and 1.9% in 2014 and 2015. Overall, economies of the United States and Japan have recovered, and their growth trends are strong, while countries in Euro Zone are affected by European debt crisis and their economies are declining mildly. In contrast, the overall growth rate of developing countries maintains over 4.4% (the GDP growth rate of developing countries was 4.7% in 2013, and the expectations were 4.4% and 4.4% in 2014 and 2015). After the financial crisis, the “two speed” pattern of developed economies and emerging economies will be further deepened. According to the forecast of the International Monetary Fund, by 2050, GDP of “BRIC countries” (China, Brazil, Russia, India, and South Africa) will exceed other large industrial countries, such as the United States, Britain, Canada, France, Germany, Italy, and Japan, and emerging markets which represented by China and the Central and West Asian countries will become the important driving force of world economic growth. Asian developing countries

<sup>5</sup> UN DESA. World Economic Situation and Prospects: Mid-2015 Update, 2015-07, <http://www.un.org/en/development/desa/policy/wesp>.



which represented by the Central and West Asian countries have a vast market. According to the estimation of the Asian Development Bank<sup>6</sup>, the annual Asian infrastructure funding needs will reach \$730 billion in the next 8 to 10 years, and the World Bank estimates that this number will be \$800 billion. But the sum of infrastructure investment in Asia from the Asian Development Bank and the World Bank is only about \$30 billion. Therefore, the financing gap of infrastructure construction in Asia is huge. Lack of funding has restricted infrastructure construction and the economic growth of developing countries and regions, which was represented by the Central and West Asian countries.

### **New Normal of China's Economy Introduced to Initiative “the Belt and Road” Strategy**

New normal of China's economy means that China's economy entered a normal growth phase after more than 30 years of rapid growth, and the speed of economic growth will be kept around 7%. There are plenty of important factors to promote the long-term stable growth of China's economy over the past 30 years, such as vast domestic market, comparative advantage of labor, institution reform, and urbanization. However, because labor cost rises, the process of urbanization becomes stable, and growth of investment and consumption slows down, it is urgent for China's economy to seek for a new economic growth point. In addition, since the beginning of the 21st century, redundant construction and overcapacity have influenced the development of China's economy, especially since the financial crisis in 2008. Blind investment which stimulated by the “4 trillion” investment plan, the top 10 industrial revitalization plan, and loose monetary policy, exacerbated the overcapacity problem<sup>7</sup>.

At the same time, it should be seen that in the new round of adjusting industrial structure, transformation and upgrading have become the main melody of this round, and core elements, such as market, capital, talent, and product, become the focus of adjusting industrial structure. After 30 years of technology accumulation and upgrading, China's manufacturing, especially middle-end manufacturing, has reached the middle or high-level in the world. China's economic growth needs to solve the overcapacity problem by using the comparative advantage of manufacturing to expand international market. Besides, a new pattern of China's regional development has been produced. In February, 2014, Eastern and Coastal developed area first implemented regional planning strategy, such as collaborative development strategy of Beijing, Tianjin, and Hebei, and the Yangtze River economic belt strategy. By the end of 2014, the GDP growth speed of Guangxi, Hunan, and Sichuan has exceeded the speed of eastern developed regions for successive seven years. How to achieve regional coordinated development, promote regional trade, and stimulate economic growth becomes another problem for China's economy. In recent years, China has made a lot of strategies and plans to promote regional economic integration, including the Silk Road Economic Belt strategy, the 21st-Century Maritime Silk Road strategy, BCIM (Bangladesh, China, India, and Myanmar), Economic Corridor strategy, China and Pakistan Economic Corridor strategy, the Northeast Asia economic integration strategy and so on. All of these strategies focus on regional economic integration with the basis of China's national strategies and are in line with member states' strategic interests.

<sup>6</sup> B. N. Bhattacharyay, K. Masahiro, and N. Rajat (Eds.). *Infrastructure for Asian connectivity*. Edward Elgar Publishing, 2012.

<sup>7</sup> Han, G.-G., Gao, T.-M., Wang, G.-L., Qi, Y.-F., and Wang, X.-S. (2011). Research on measurement, volatility and causes of excess production capacity of Chinese manufacturing industries. *Economic Research Journal*, 12, 18-31.

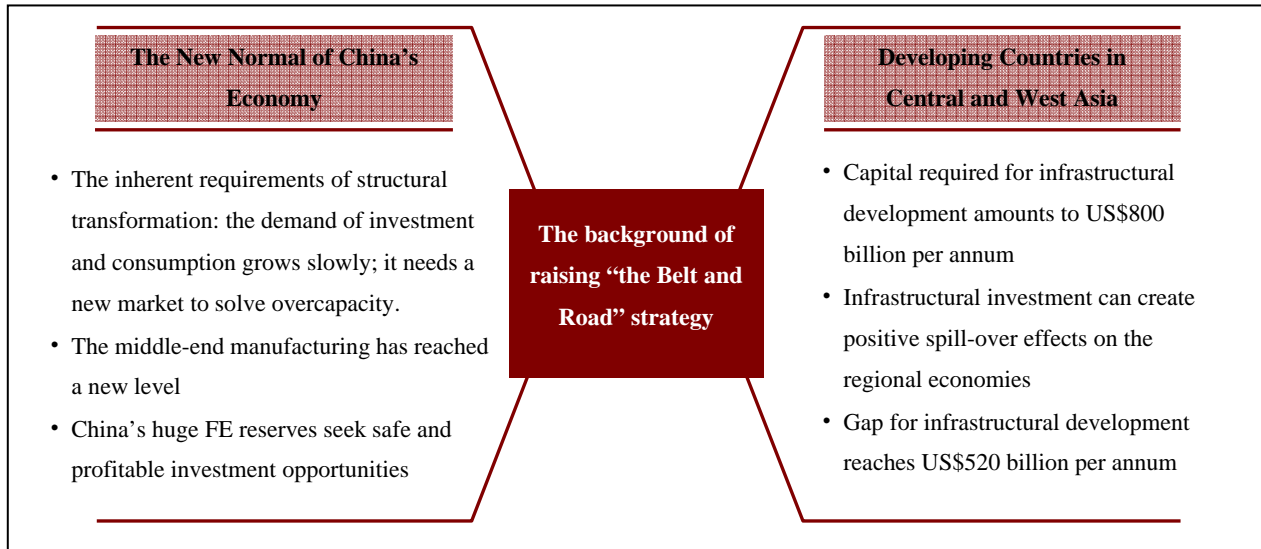


Figure 1. The background of raising “the Belt and Road” strategy.

In short, China's economy under new normal, urgent needs to transform and upgrade, and it is necessary for China to open up a new market to expand the sale channels of manufactured goods and expand foreign investment, while these Asian developing countries represented by Central and West countries are facing a huge demand of capital, manufactured goods, and technologies. So the matching of these two sides provides basic conditions to initiative “the Belt and Road” in 2013 and formally implement it in 2015.

### Research Methods: Basic Models of Understanding the Nature of “The Belt and Road”

#### A Basic Model: The Interaction and Win-Win Between China and the Central and West Asian Countries (CWA) and Southeast Asian Countries (SEA)

Given that China has inherent demands to transfer its economic structure and expand market, China has the huge foreign exchange reserves and seeks for steady investment projects and opportunity, and other Asian countries represented by the Central Asian countries have vast domestic market, but lack of infrastructure funding, the basic model of understanding the nature of “the Belt and Road” can be built by designing an economic circular route: China facilitates its infrastructure construction projects to go out by providing low-interest loans to other countries, and promotes other countries' economic growth by these infrastructure construction, then other countries use their economic benefits to return their loans (see Figure 2).

Specifically, China provides low-interest loans to other Asian countries, and executes infrastructure construction. On the one hand, it is achieved to effectively expand international market for overcapacity and it helps China find a robust investment channel for foreign exchange reserves. China's funds mainly come from huge foreign exchange reserves, the local Silk Road Fund from these provinces along the line, and social capitals raised by the way of debt or other forms. The output infrastructure construction includes roads, railways, high-speed rail, power, and other industries. The production capacity of related fields, such as communications and construction machinery, also can be outputted. On the other hand, governments and enterprises in these developing countries which have an economic growth through infrastructure construction can pay the low-interest loans by using the revenue of tax and projects. In a word, developing countries provide broad markets, and get funds and technology for development, and when infrastructure construction is finished,

they can use the “spillover effects” of infrastructure to promote economic development and use revenue surplus to pay loans. At last, both China and these developing countries achieve a win-win situation.



Figure 2. A basic model: the interaction and win-win between China, the Central and West Asian countries (CWA), and Southeast Asian countries (SEA).

### **An Extended Model: The Multilateral Win-Win Situation Between China and Other Countries in Asia, Europe, and Africa**

“The Belt and Road” strategy was born of economic interaction between China and other Asian countries. It starts from the fundamental demand and supply of bilateral market and is devoted to satisfying bilateral benefits between China and other Asian countries. In fact, the Silk Road Economic Belt connected Asia-Pacific economic circle from east side and European economic circle from west side, and it’s considered as the longest and most potential economic corridor in the world. European industrial countries which face a mild recession are more likely to participate in the construction of “the Belt and Road” strategy through their technical advantages, so that they can obtain the vast markets in Central Asia countries. As the leading country of “the Belt and Road”, China occupies a significant position in the basic model of “The Belt and Road”. Meanwhile, cooperating with European industrial countries to invest towards developing countries is conducive to provide a platform for Chinese enterprises to learn the advanced technology and marketing experience, and help Chinese manufacturing upgrade its technology. So, European countries as the third party participating in the construction of “the Belt and Road”, and achieving international cooperation in capacity came into being. African countries also need infrastructure construction. Considering these, the basic model of “the Belt and Road” strategy can be extended (see Figure 3).

As “the Belt and Road” strategy is advancing, African countries will be beneficiaries on the next stage. According to World Economic Situation and Prospects 2015, which was released by the United Nations, the GDP growth speed of African countries in 2013 was up to 3.3%, and it was expected to reach 4.0% in 2015 and 4.8% in 2016. Among them, the GDP growth speed of Eastern African countries was up to 6.5%, and they were expected to reach 6.6% in 2015 and 6.7% in 2016, where the growth speed of this area is far more than the speed of other countries and regions in the world. There are at least two aspects to understand why African

countries benefit from “the Belt and Road” strategy: on the one hand, with the construction of infrastructure, some African countries will become the input market of capital and technology, and they could directly benefit from these infrastructure construction; on the other hand, the regional development driven by the Central Asian countries’ infrastructure construction will benefit African developing countries. The regional factor flow is in favor of the regional coordinated development.

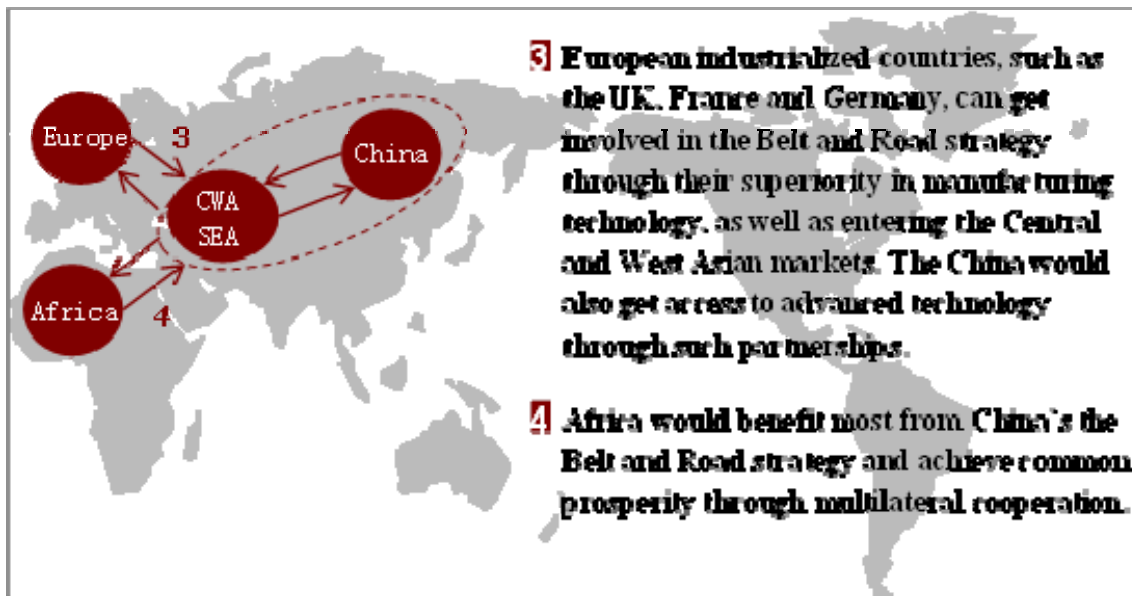


Figure 3. An extended model: the multilateral win-win situation between China and other countries in Asia, Europe, and Africa.

In recent years, the major European countries have improved their attitudes to China after raising “the Belt and Road” initiative, to a great extent, which not only certifies that “the Belt and Road” is very attractive to European countries, but also proves the logic of “the Belt and Road” idea is self-consistent. The active participation of European and African countries greatly expands and enriches the connotation of “the Belt and Road” strategy.

Put the Figure 2 and Figure 3 together, considering that it is possible for the North American countries to join in the future, another extended model including the North American countries was established, and that is the comprehensive theoretical model of “the Belt and Road” strategy (see Figure 4 ).

The theoretical model of “the Belt and Road” is based on the development status quo of China’s and other countries’ economies and macro background of international economy. It abstractly simplifies member countries as market entities and analyzes the behaviors and benefits of all participating parties from the perspective of supply and demand. It tries to prove that the logic of “the Belt and Road” is self-consistent. Finally, it deserves to notice that it is unnecessary for theoretical model to include all the contents of “the Belt and Road”, but it really is an ideological weapon to help us understand the economic nature of “the Belt and Road”.

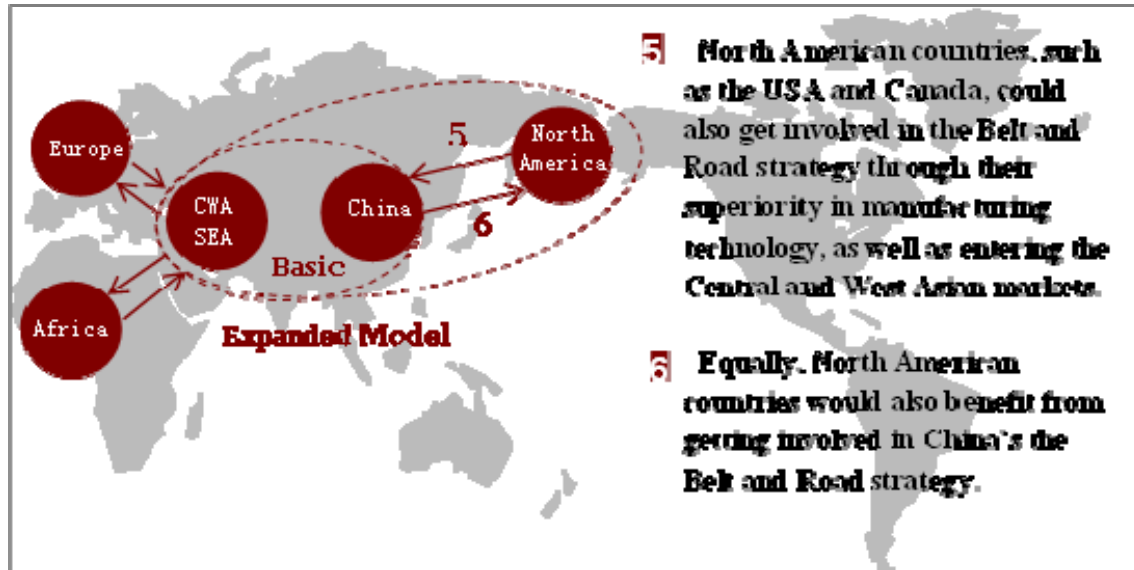


Figure 4. The comprehensive theoretical model of “the Belt and Road” strategy: the multilateral win-win situation including all member countries.

### The Significance of the Implementation of “The Belt and Road” Strategy to China’s Development

As a medium- and long-term national strategy, “the Belt and Road” initiative is mainly to solve several important problems which are related to the development in the future, such as to create a new driving force of economic growth, to develop a new pattern of opening-up, to deepen national strategies, to strengthen national security, to grasp the leadership of regional economy, to promote the reform of the global governance structure and so on. This is of great significance to the stable development after China’s economy enters into a new normal.

#### To Create a New Driving Force of Economic Growth

Overcapacity becomes a serious problem for economic operation. Traditional countries that China exports to are narrow, and among them, the United States, Japan, and European countries occupied the core position. China’s traditional export market has relative fully developed, and plus the economic growth of the United States, Japan, European countries are weak, there is little room for expanding export market in these countries, so it is difficult for these countries to digest China’s overcapacity. In the case that domestic consumption is hardly accelerated, expanding new export market through “the Belt and Road” is a realistic choice matched with China’s economic growth.

In addition, maintaining and increasing the value of foreign change assets are another big problem for China at present. Due to the fund gap of infrastructure construction which exists in emerging countries and less developed countries, China can use its foreign exchange reserve to invest overseas infrastructure construction to stimulate global economic growth and digest its overcapacity by capital export. Therefore, “the Belt and Road” strategy creates a new driving force of China’s economic growth.

#### To Develop a New Pattern of Opening-up

In the 38 years since reform and opening-up, China has made remarkable achievements. But affected by geographical location, nature resources, development foundation, and other factors, the pattern of China’s

opening-up generally presents that the east areas are faster than the west areas, and the coastal areas are faster than the inland areas. The implementation of “the Belt and Road” strategy will help to build “one body with two wings” of new round opening-up, which is advancing the opening-up of the west regions and the inland areas. Following the Silk Road spirit which is peaceful cooperation, openness, inclusiveness, mutual learning, mutual benefit, and win-win, China carries out “the Belt and Road” strategy, and cooperates with those countries along the line in aspects of infrastructure construction, trade and investment, energy, regional integration, internationalization of RMB, etc. This would develop a new pattern for China’s opening-up.

### **To Deepen National Strategies and Strengthen National Security**

At present, China imports resources mainly through the coastal sea-lane, but sea route is directly exposed to external threats, and it is extremely fragile during the war. China’s industries and infrastructure are also concentrated in the coastal regions. So if these regions are attacked, China will lose core infrastructure. In central and west areas, especially the west areas, there are few people in wild land, the potential of developing industry and infrastructure is great and the threats during the war are less. Exploiting the west areas via “the Belt and Road” strategy is beneficial to deepen national strategies and enhance national security.

### **To Grasp the Leadership of Regional Economy and Promote the Reform of the Global Governance Structure**

For China, “the Belt and Road” strategy is not only against the TPP (Trans-Pacific Partnership Agreement) and TTIP (Trans-Atlantic Trade and Investment Partnership) which are led by the United States excluding China, but also gives China the opportunity to gain rights to make new global trade rules in the economic activities of “The Belt and Road”. For example, the 21st-Century Maritime Silk Road will be constructed based on domestic and overseas ports and impels negotiations of various free-trade agreements. After the successful test of Shanghai free-trade zone, China can build an international transshipment port which relies on the deep-water ports of Shanghai (including Ningbo-Zhoushan) and Quanzhou, and makes it become the international center of economy, finance, trade, and shipment, so that China can obtain the leadership of international trade, pricing, and resource allocation. In a word, China can greatly enhance its regional economic influences through accelerating the regional economic integration.

## **The Significances of “the Belt and Road” Strategy to the Cooperation Between China and European Countries and the Cooperation Between China and North American Countries**

### **The Significance of “The Belt and Road” Strategy to the Cooperation Between China and European Countries**

There is a long history of trade for China and European countries. For European countries which are looking forward to revival and transformation of economy and China which is trying to go out, they are indispensable partners for each other in this new stage of economic growth. In 2015, the value of trade between China and European Union (EU) amounted to €21 billion, and it accounted for 15% of total EU’s trade value. EU is keeping the largest trade partner to China for consecutive 11 years, and China is also the second largest trade partner to EU. In the same year, the actual investment from EU to China is \$7.11 billion, and its growth speed is 11.9%. The direct investment from China to EU is \$23 billion, and its growth speed is 21.7%. The scale and growth speed of trade and investment reflect the close economic relations and common interests of China and European countries. “The Belt and Road” construction is a new opportunity to expand the depth and

breadth of cooperation between China and European countries and from the starting point and the end of “the Belt and Road”, China and European countries will be further integrated in the aspect of economy.

Specifically, “the Belt and Road” construction will promote economic cooperation between China and European countries in the following aspects: First, infrastructure construction is conducive to achieve connectivity between two sides. The investment of infrastructure construction is the core of “the Belt and Road” strategy, and increasing trade value and insufficient shipping also confirm the necessity of transportation construction. The construction of the Maritime Silk Road shortens the distance of shipping and reduces the cost of transportation, and the construction of overland railway creates the new investment opportunities and leads to the development of regional economy. Cooperation in infrastructure construction which is good for achieving the connectivity of Eurasia is the cornerstone of economic integration between China and European countries in the future. Second, the connection of strategic planning promotes the growth of investment and trade between China and European countries. “The Belt and Road” strategy corresponds to a number of European planning. For example, at the end of 2014, The EU launched the European Strategic Investment Plan (Juncker plan) which focuses on stimulating European economy, but it has a large funding gap. Connecting this plan with “The Belt and Road” strategy can not only get the funds, but also strengthen bilateral cooperation in investment and trade. Third, the financial services ensure the smooth operation of real economy. In recent years, the speed of RMB internationalization is accelerated, and the cooperation between China and European countries in the field of monetary and finance also steps up to a new level. European countries have actively joined the Asian Infrastructure Investment Bank, which shows that China and European countries are committed to building a two-way investment channels. A deep-level economic cooperation is conducive to the development of real economy. Finally, “The Belt and Road” strategy is in favor of carrying out all-round cooperation in the economic field. The construction of “digital Silk Road” will lead the bilateral economic cooperation from the traditional fields to emerging fields, such as internet and communication, and information technology cooperation is beneficial for e-commerce, internet finance, and other industries to rise sharply. The successful experience of European urbanization is worth learning by China, so establishing the friendship between cities is good for the cooperation in city’s facilities construction and so on. China has large energy consumption with low utilization rate, and its energy structure is single while European countries have high dependence on foreign energy, so both of them have some problems of energy. “The Belt and Road” strategy gives the opportunity to cooperate in the aspect of energy.

“The Belt and Road” construction makes a huge room for China and European countries to cooperate and the prospect is bright. However, advancing “the Belt and Road” construction is not without any frictions, trade disputes between China and European countries, political mutual trust and coordinating interests with other countries, such as Russia and the United States, all of which are challenges of the cooperation between China and European countries. Under the framework of “the Belt and Road” strategy, how to control differences and achieve fruitful cooperation depend on the strategic wisdom of China and European countries.

### **The Significance of “The Belt and Road” Strategy to the Cooperation Between China and North American Countries**

As early as 2011, the United States put forward the strategy of “new Silk Road”, and invested the Central and South Asia based on the bilateral relations. Despite profound differences between “the Belt and Road” strategy raised by China and “the new Silk Road” strategy raised by the United States, “the Belt and Road”

strategy involves a large number of economic projects and a vast market, especially in the process of promoting the implementation of this strategy in the Central Asia, West Asia, and Middle East. The United States and China have a lot of common interests and broad space for cooperation. China's initiative of infrastructure construction is helpful for America to execute its planning in these areas, and America has a great advantage of transportation construction, environment management, marine exploitation and management which can be played very well under the framework of “the Belt and Road” strategy. Sino-US enterprises have many opportunities to cooperate in these aspects of ports, roads, transportation facilities, finance, energy etc. Under the framework of “the Belt and Road” strategy, China and the United States do not play a zero-sum game, and they need to have greater political trust so as to promote economic cooperation between two countries in a deeper level. On May 9, 2016, British Columbia and Guangdong province signed cooperation documents of mutual support, participating in “the Belt and Road” strategy and “Pacific Gateway Strategy”. It marked that “the Belt and Road” strategy extended to the North America for the first time. China is the second largest trade partner of Canada, and Canadian companies have advantages in many aspects of infrastructure construction and project management. Canadian enterprises can join the economic development in these countries along the line of “the Belt and Road” to achieve a win-win situation with China. In 2015, the first offshore RMB clearing center was launched in Toronto, Canada, and the financial integration between China and Canada saves a lot of trade costs. Canada can also use the capital advantage of RMB to actively join in “the Belt and Road” construction in the future. Although current “the Belt and Road” strategy doesn't cover the area of North America geographically, this strategy is inclusive enough. The North American countries can play an important role in the implementation of this strategy by using their comparative advantages.

Implementing “the Belt and Road” strategy is not only an inevitable logic of China's all-round opening-up and an certain trend of civilization renaissance, but also a necessary requirement of inclusive development of globalization. It faces new opportunities in aspects of all-round opening-up, diplomacy, cooperation, and global development, and also faces various risks, such as geopolitics, security, economy, and market. Therefore, the study on this topic is definitely different from other studies, and it has several characteristics: comprehensive, strategic, systematic, international, and long-term. Now, analyzing these specific issues in depth is particularly important, and this paper is an attempt in this respect.

### Conclusions

The Silk Road Economic Belt links Asia Pacific in the east with European in the west, which is regarded as the world's longest economic corridor with a huge development potential, and the 21st-Century Marine Silk Road is intended to strengthen China's economic links with ASEAN countries. These two parts constitute the core of “the Belt and Road” Initiative. “The Belt and Road” Initiative is strategic. On one hand, it meets the requirements of structural transformation and seeks for profitable investment opportunities of China, and on the other hand, it meets the requirements of infrastructural development of Central and West Asian countries. So there is a big room for China and these developing countries to improve the cooperation. For example, China can provide the soft loans to other Asian countries to carry out infrastructure development and then these countries will repay China's soft loans with incomes and social benefits generated from the projects. Except for the cooperation between China, Central and West Asian, and Africa countries, it is possible and important to strengthen the cooperation between China, European, and North American countries. Industrialized countries, such as UK, USA and so on, can get involved in the initiative through their superiority in manufacturing



technology. In conclusion, “the Belt and Road” Initiative is a multilateral win-win development strategy which has a broad prospect, so more and more countries should be involved in.

### References

- Chu, Y., & Gao, Y. (2015). China's Belt and Road Initiative: Three questions to be answered. *International Economic Review*, 2, 90-99.
- Dong, M.-J., & Liang, Y.-M. (2013). The source of China's economic growth from 1978 to 2010: A non-parameter framework. *Economic Research Journal*, 5, 17-32.
- He, M.-C., Zhang, J.-B., Zhang, Y.-F., & Tian, B. (2015). Strategy of “one Belt and one Road” confronted with barriers and countermeasures. *Journal of Xinjiang Normal University (Philosophy and Social Sciences)*, 36(3), 36-45.
- Huang, H.-T. (2015).. “The Belt and Road” Initiative: The nature of interaction and the building of trust. *Tianjin Social Sciences*, 6, 87-92.
- Liu, W.-D. (2015). Scientific understanding of the Belt and Road Initiative of China and related research themes. *Progress in Geography*, 34(5), 538-544.
- Li, X.-Y. (2015). Relations to be prioritized in China's “Belt and Road Initiative”. *International Economic Review*, 1, 54-63.
- Su, H. (2015). A study on the transfer of China's manufacturing under “the Belt and Road” Initiative. *International Trade*, 3, 18-21.
- Yang, F.-H., & Yan, C.-F. (2015). A study on the implementation mechanism of Chinese direct investment under “the Belt and Road” Initiative. *Theoretical Investigation*, 5, 80-83.

# A Roman Funerary Monument From Šipovo

Radmila Zotović

Institute of Archaeology, Belgrade, Serbia

A newly discovered Roman funerary monument from Šipovo mentions a Roman urban settlement in the municipium rank with the name not identified to date apart from the three initial letters—Bal. The deceased was both in military service as a centurion and in civil service as a decurion of the mentioned town. That it was a person of importance is indicated not only by the gravestone inscription but also by the relief depiction of the deceased, shown to be holding a volumen in his hand. Since the monument is chipped and damaged in the upper part, it can only be determined that it was a stela type funerary monument. The main goal of this work is to underline the importance of this monument as a great archaeological treasure, since it is the first written source from Roman period for the town with the three initial letters—Bal, as well as the source for further excavation and the researching of military units of the first word Nova. Two questions will stay open: when the settlement becomes municipium, and the full name of the town.

*Keywords:* Roman period, funerary monument, the first mention of municipium Bal, military units of Nova word, centurion, decurion

## Introduction

It was a while ago in Šipovo, during the works on enlarging an Orthodox church building, that a Roman funerary monument was uncovered. This monument has a great scientific significance since it is the first mention of the Roman town of municipium rank with the three initial words—Bal.

The main goal of this work is to analyse this funerary monument. The analysis of every funerary monument considers the type of the monument, description of the same, reading of the text, and researching of the text meaning. The further analysis is to discuss about the main facts which the text may consider and to date monument.

## A Roman Funerary Monument From Šipovo

The funerary monument is of *stela* type. It was made of limestone and was rather damaged in the upper part. A part of the relief field is visible, as well as the inscription field and the socle beneath the inscription field with a part of the tenon (Figure 1). Since the upper part of the relief field is damaged, and the pediment is chipped, the stela type that the funerary monument from Šipovo belongs to cannot be identified with certainty. It is only by its dimensions ( $0.46 \times 1.40 \times 0.13$  m) that it might be said to belong to the type of stela with one relief field and the inscription field beneath it. Both the relief and inscription fields are framed by a simple triple moulding with no ornamental elements. A remnant of an ornamental element is visible in the socle

---

Radmila Zotović, Ph.D. of Classical Archaeology, Institute of Archaeology, Belgrade, Serbia.

Correspondence concerning this article should be addressed to Radmila Zotović, Institute of Archaeology, Knez Mihailova 35/IV, 11000 Belgrade, Serbia.

beneath the inscription field. The inscription field (dimensions  $0.45 \times 0.56$  m), at the bottom below the text, shows a relief depiction of a leaf. The preserved part of the text reads: *D(is) M(anibus)/P Ae(lio) C(enturio)/Nova [-----]/dec(urio) mun(icipii)/Bal( )/[-----]MO* (see Figure 2).



Figure 1. Септембар 201031.

### Discussion About the Main Facts

In the relief field a remnant of the relief depiction of a male bust is visible. The man is depicted in a toga, holding a volumen in one hand, and the hand of the other arm, folded at the elbow, rests on his chest. Although the text is rather damaged, the very fact that the man was depicted with a volumen in his hand indicates that it was most probably a military man of higher rank, or it may be an indication of citizenship status (Cf.: Зотовић, 1995). More precisely, regardless of whether it was a civilian or a military man, a volumen in hand always represents, and it is usually seen as an attribute for citizenship, since the Roman citizenship status in the military was received by higher ranks, i.e., when they were promoted from the rank of *decurio cohortis* or higher. As for civil service, in order to achieve social standing and office, persons needed to have a citizenship status. In this case, the person from the grave monument had successive offices: first in the military, as a centurion, and then in civil service as a decurion of a municipium of the unknown name starting with letters *BAL*.



Figure 2. Септембар 201126.

### **Previously Historical and Archeological Researching, the Dating and Main Facts of the Position of the Town**

As far as the author of this paper knows, this is the only epigraphic monument from the territory of Bosnia and Herzegovina that mentions a municipium with the first three letters being *BAL*. It is possible that the name of the municipium refers to the municipium later mentioned by Porphyrogenitus in vulgarised Latin as Βόγκεις, Βάγκεις, and Βαλβης (Баришић & Марковић, 1955).

Bojanovski believed that in this area there was a Roman municipium Baloie (Bojanovski, 1974). He actually linked the name of this municipium to the civitas rank settlement mentioned in the sources as a travel station, civitas *Baloia* (Bojanovski, 1974). According to Wilkes, this urban settlement in the river Pliva valley was in accord with the municipium rank during the reign of Emperor Hadrian (Wilkes, 1969). Later historical sources (Bojanovski, 1974) mention that the town was conquered and destroyed in late 6th century, at the time of Maurice (582-602). The name of this town appeared in several written “variants”, but they are thought to

present different vulgarised forms of Latin and actually refer to the same town. This in particular refers to similar names of this town, such as *Balcam*, *Baleam*, *Balea*, and *Baloiam*, which all correspond or may correspond to the town called *Baloie*. The same refers to mentioned names of the conquered town as *Balca*, Βόγκεις, Βάγκεις, and Βαλβης, based on which a conclusion can be made. If an urban settlement of *Balea* was identical with *Baloie*, then the mentioned names of the conquered town may be considered as names that also refer to the municipium of *Baloie* (Bojanovski, 1974).

Going back to a further analysis of the discovered monument from Šipovo, it may be seen that the name of the deceased, *Publius Aelius*, is of the so-called two-part onomastic formula type, where the *gentilicium Aelius* points to the period of achieving citizenship rights in 2nd century, most probably at the time of Hadrian or Antoninus Pius. The two-part onomastic formula also points to a person (most probably of native origin), who himself or through “inheritance from father to son” acquired citizen rights and received a name from the Latin name *repertorium*. Since the deceased had a lifespan of 50 years, this funerary monument may be dated into a broader chronological framework of 2nd century. It is believed that in the area of Šipovo, near Zenica, there was a significant stone carving production (Paškvalin, 2012). More precisely, it is thought that in the territory of *Baloie* municipium there must have been a local carving workshop for producing stone monuments (Cambi, 1982).

### Military Units and the Profession of the Deceased for His Life

Military units whose names mention the attribute *Nova* are the following ones: *ala I Claudia Nova Miscellanea*, *cohors II Aurelia Nova Milliaria Equitata Civium Romanorum*, *cohors VI Nova Cumidavensium Alexandriana*, *cohors I Aurelia Nova Pasinatum Civium Romanorum Milliaria*, and *cohors I Aurelia Nova Sacorum* (Beneš, 1978). Except for the *ala Claudia Nova Miscellanea* and the *cohors VI Nova Cumidavensium Alexandriana*, whose operations in the territories of Dalmatia and Dacia are linked to the periods of 1st and 3rd centuries, the mentioned military units were identified in the epigraphic monuments that may be dated into the period of 2nd century. It is thought that stationing of military units in the 2nd century was related to stationing along the border of Moesia Superior and Dalmatia (Beneš, 1978). Thus, for instance, Beneš gives an example of the *cohors I Aurelia Nova Asacorum* that was assigned to the territories of both Dalmatia and Moesia Superior provinces (Beneš, 1978). Earlier on Patsch also thought that the influence of Roman in the river Pliva valley was primarily of military character (Patsch, 1910), and Sergejevski believed that the military camp that was used by and built for a cohort became an urban settlement later on (Bojanovski, 1974). In order to avoid any confusion, given that Dalmatia was a province *inarmis*, i.e., with no military, from AD 70, Sergejevski states that this small camp existed in the 1st and 2nd centuries, while Bojanovski claims that in both 2nd and 3rd centuries in the area of Šipovo only auxiliary military units were situated (Bojanovski, 1974). Nonetheless, in the entire territory of Bosnia and Herzegovina the monuments where military units are mentioned are not numerous. Mostly smaller military units are mentioned, while legions are mentioned in fewer monuments. For the most part *leg. II* is mentioned, with no name indicated (Paškvalin, 2012). In addition, *leg. XI Cl(audia) p(ia) f(idelis)* (Paškvalin, 2012), *VIII Aug(usta)* (Paškvalin, 2012), *leg. P(rimae) I(talicae) p(iae) f(idelis)* (Paškvalin, 2012), as well as *leg. VII*, possibly *Claudia* (Paškvalin, 2012) were also mentioned. Smaller military units were mentioned including *cohors III Alp(ina)* (Paškvalin, 2012), *I Luce(nsium)* (Paškvalin, 2012), *I Bracaraug* (Paškvalin, 2012), and *cohors I Belgarum* (Paškvalin, 2012). Such a “list” of the mentioned military units should by all means include also the newly discovered one from the Šipovo monument, for which it cannot be



known as well, for the time being, its exact identification, i.e., the full name of this military unit. The fact that the said Publius Aelius (see Figure 3) was at first an officer in a military unit does not conflict with the monument dating and the fact that Dalmatia was a province *inarmis* from as early as AD 70. Not surprisingly, once they left the military or the term of their service was over, military persons could take up civil service in any area, not only where the military unit in which they had previously served was stationed in. If their personal financial security allowed it, they would join in the civilian social life mostly by becoming members of the city council, and continued their service by deciding on the urban utility network and infrastructure as well as on town ornaments. Such functions that are mentioned one after the other are thought to be the so-called “successive” functions. Analysis of epigraphic material for the territory of Roman Serbia showed that the largest number of such functions actually involved the relation military service—decurio (Zotović, 2007). There are examples that after ending military service they moved even from rather distant parts into the territory of a specific municipium that may be found, for instance, in the territory of Serbia. Thus a former high official of coh. *I Thracum Syriacae* and a tribune of the legion *VI Ferratae* moved into the area of Ravna (Timacum Minus), as stated on the monument *in Syriae* (This is mentioned as one of the most impressive examples, see: Zotović, 2007). Therefore it may be concluded that the area of this municipium was included in the general social mainstream of Romanisation as well, characteristically since the period of Hadrian (117-138) and later on, during the 2nd and 3rd centuries.



Figure 3. Септембар 2010025.

### Conclusions

A newly discovered Roman funerary monument from Šipovo mentions a Roman urban settlement in the municipium rank with the name not identified to date apart from the three initial letters—BAL. The deceased was both in military service as a centurion and in civil service as a decurion of the mentioned town. That it was

a person of importance is indicated not only by the gravestone inscription but also by the relief depiction of the deceased, shown to be holding a volumen in his hand. Since the monument is chipped and damaged in the upper part, it can only be determined that it was a stela type funerary monument.

The monument can be dated in the time of wider period of 2nd century. There are two questions which will stay open for now: the time when the settlement becomes municipium and the full name of the town. It is possible to suggest that deceased for his life came for the smaller or further distance and became decurio of the town.

### References

- Баришић, Ф., & Марковић, М. (1955). *Византијски извори за историју народа Југославије I*. Београд: Научна књига, 103-126.
- Beneš J. (1978). Auxilia Roman in Moesia atque in Dacia: zu den Fragen des römischen Verteidigungssystems im Unteren Donaauraum und in den angrenzenden Gebieten. Praha: Academia.
- Bojanovski, I. (1974). Baloie-rimski municipij u Šipovu na Plivi. *Arheološki radovi i rasprave, knj, 7*, 349-366.
- Cambi, N. (1982). Sarkofag iz Šipova. *Godišnjak Centra za balkanološka ispitivanja, knj, XX 18*, 91-110.
- Patsch, C. (1910). Prilozi našoj rimskoj povjesti. *Glasnik Zemaljskog muzeja XXII*, 101-190.
- Paškvalin, V. (2012). *Antički sepulkralni spomenici s područja Bosne i Hercegovine*. Sarajevo Akademija Nauka i Umjetnosti Bosne i Hercegovine (Sarajevo: Dobra knjiga).
- Wilkes, J. J. (1969). *Dalmatia*. Cambridge: Harvard University Press.
- Зотовић, Р. (1995). *Римски надгробни споменици источног дела римске провинције Далмације*. Ужице Кадињача.
- Zotović, R. (2007). *Gradja za proučavanje društvene hijerarhije na tlu Srbije u periodu rimske ladvavine (Material for Studying Social Hierarchy in the Territory of Serbia in the Period of Roman Government)*. Beograd Arheološki institut/Belgrade Archaeological Institute.

# Access to Credit by SMEs and Implications for Economic Growth in Nigeria

Afolabi Babatunde, Ekpenyong Keziah Yemisi, Akomolafe John, Awoyemi Olanike Bosede  
Afe Babalola University, Ado Ekiti, Nigeria

The purpose of this study is to examine the impact of credit availability to SMEs on the economic growth in Nigeria. The study period was from 1981 to 2012. Vector autoregressive model was employed to avoid the problem of endogeneity. The results show that though inflation has a negative effect on SMEs financing, it still significantly influences economic growth. This paper therefore concludes that there is a need for government to intensify efforts to increase SMEs financing in the country through the introduction of a special intervention fund for SMEs.

*Keywords:* small and medium scale enterprises, SMEs financing, economic growth, Nigeria, commercial banks

## Introduction

Small and medium scale enterprises (SMEs) play an important role in the development process of every economy, especially the developing nations. It is the life and bedrock of every economy. It is a major source of employment generation (Organization for Economic Co-Operation and Development (OECD), 2004). According to Savlovski and Robu (2011), two thirds of the newly created jobs are owed to the small and medium sector. Also, it is the bed seeds for indigenous entrepreneurship and that generate all the small investments which otherwise would not have taken place (Aryeetey & Ahene, 2004). Also, SMEs provide the first step for development in the economies towards industrialization. They also significantly affect income distribution, tax revenue, employment generation, and resources utilization in an economy (Subhan, Mehmood, & Sattar, 2013). Also, Savlovski and Robu (2011) claimed that SMEs are the sources from where large enterprises grew from, and they are the sources of new innovative ideas needed for the development of the economy. They help to promote competition and to bring new products to the market (Robu, 2013).

Aware of the importance of SMES in the developing process of an economy, there is the new drive towards promoting and encouraging the development of SMEs across the world (OECD, 2004). According to Business Statistics (2016), over 99% of businesses in UK are SMEs, totaling about 5.5 million in 2016. In USA, SMEs are the backbone of the economy, consisting of 99 percent of all firms in the country, and employing over 50 percent of private sector employees (Capital for Globalizing Companies, 2015) in Nigeria. The number of SMEs in 2013 is 72,838, while of micro business is 36,994,578 (Small and Medium Enterprise Development

---

Afolabi Babatunde, Ph.D., senior lecturer, Afe Babalola University, Ado Ekiti, Nigeria.

Ekpenyong Keziah Yemisi, Afe Babalola University, Ado Ekiti, Nigeria.

Akomolafe Kehinde John, lecturer, Afe Babalola University, Ado Ekiti, Nigeria.

Awoyemi Olanike Bosede, lecturer, Afe Babalola University, Ado Ekiti, Nigeria.

Correspondence concerning this article should be addressed to Afolabi Babatunde, Killometer 85 Afe Babalola Way, Afe Babalola University, PMB 5454, Ado Ekiti, Nigeria.



Agency of Nigeria (SMEDAN) & National Bureau of Statistics, 2013). The development of SMEs in Nigeria is very low when compared to those of other developed nations. SMEs in Nigeria are faced with many challenges which hamper its growth. One of these is access to finance. According to Onugu (2005), the problems SMEs are facing in Nigeria are management, access to finance, infrastructure, government policy inconsistencies and bureaucracy, environmental factors, multiple taxes and levies, access to modern technology, unfair competition, marketing problems, and non-availability of raw materials locally. Also, Okpara (2011) found out that the lack of financial support is a major factor that hinders the growth and survival of SMEs in Nigeria. It is in this regard that this study aims to examine the implication of access to credit by SMEs on economic growth in Nigeria.

### **Literature Review**

There have been various attempts to study the relationship between SMEs and economic growth in the literature. Akingunola (2011) examined the relationship between SMEs financing options and economic growth in Nigeria using investment as proxy for economic growth. The result shows that SMEs financing is positively related to economic growth. Also, Adebisi, Sunday, and Ofuani (2015) examined the financial challenges that SMEs are facing and its effects on their performance in Lagos state. The study used primary data which were collected through administration of questionnaire to 222 respondents. The study shows that financial challenges rank as the highest among the challenges inhibiting the performance of SMEs in Lagos state, Nigeria. Also, Afolabi (2013) examined the growth effect of small and medium enterprises (SMEs) financing in Nigeria between 1980 and 2010. Using Ordinary Least Square (OLS), the result shows that SMEs financing was positively related to economic growth.

Nwachukwu (2012) used primary data collected from 100 SMEs which were randomly selected across some states in Nigeria to access to the role of entrepreneurship in economic development of Nigeria. The result shows that SMEs have not performed up to expectation in its effects on the country's economic development. Ebiringa (2011) examined the contributions of SMEs and large firms to economic activities in Nigeria. The results showed that SMEs provide more of the employment opportunities than the large scale firms. The result also shows that SMEs are not significant in its contribution to manufacturing sector output growth but large firms are. Olowe, Moradeyo, and Babalola (2013) examined the impact of microfinance bank on SMEs growth in Oyo State, Nigeria. The results from this study showed that financial services obtained from MFBs have a positive significant impact on MSEs growth in Nigeria. The results also show that duration of loan has a positive impact on SMEs growth but not statistically significant.

Abereijo and Fayomi (2005) review innovative approach to financing small and medium industries equity investment scheme in Nigeria. They found out that challenges that banks in Nigeria face in the implementation of Small and Medium Industries Equity Investment Scheme (SMIEIS) include challenges that relate to deal flow, investment structuring, monitoring/value enhancement, and liquidity and exit strategies. Safiriyu and Njogo (2012) examined the impact of small and medium scale enterprises on employment in Lagos State, Nigeria. The result shows that SMEs have positively contributed to employment generation in Nigeria.

### **Defining Small and Medium Enterprise**

Various definitions exist on the definitions of SMEs by different countries and organization. According to the European Commission (2003), SMEs refer to companies with fewer than 250 employees, a turnover below €50 million, and a balance sheet total of less than 43 Million Euro. According to International Finance

Corporation (2006), an enterprise is said to be micro if the number of its employees is below 10, total assets are less or up to \$100,000 or its equivalent, and total annual sales are less or up to \$100,000 or its equivalent. It is small if the number of its employees is more than 10 but less or equal to 50, total assets are greater than \$100,000 but less than or equal to \$3m or its equivalent, and total annual sales are less or up to \$3m or its equivalent. It is medium if its employees are more than 50 but less or equal to 300, total assets are greater than \$3m but less than or equal to \$15m or its equivalent, and total annual sales are greater than \$3m but less than or equal to \$15m or its equivalent.

In Nigeria, the definition of micro, small, and medium enterprises is addressed in the National Policy on MSMEs, and uses employment and assets as the basis for its classification (SMEDAN and NBS, 2013). An enterprise is said to be micro if the number of employees is less than 10, and total assets (excluding land and building) are less than N5 million. It is small that the number of employees is between 10 and 49, and total assets excluding land and building) are between N5 million and less than N50 million. It is medium if employees is between 50 and 199, and total assets excluding land and building) are between N50 million and less than N500 million.

#### **Distribution of Micro, Small, and Medium Enterprises by State in Nigeria**

Table 1 shows that Lagos State has the highest population of small enterprises, medium enterprises, and micro-enterprises in the country. This is as expected given the fact that the state is the hub of economic activities in the country. Kano State is followed in term of small enterprises, while Oyo State is second in term of micro and medium enterprises. This shows that population of a state does not necessarily determine the amount of enterprises as it attracts. The concentration of micro and medium enterprises in Oyo State might have been influenced by its proximity to Lagos state which is a close source of raw materials.

Table 1

#### *Distribution of Small and Medium Enterprises by State*

State	Small	Medium	Micro
Abia	1,769	40	904,721
Akwa-Ibom	898	195	1,319,607
Anambra	1,620	117	1,223,395
Bauchi	2,039	27	944,503
Bayelsa	354	72	541,332
Benue	1,146	22	1,479,145
Cross River	1,126	168	921,256
Delta	1,444	-	1,536,158
Ebonyi	1,206	4	577,216
Edo	1,879	118	898,084
Ekiti	903	126	964,179
Enugu	812	99	1,064,893
Gombe	1,043	65	527,230
Imo	1,259	135	1,296,386
Jigawa	1,022	75	820,001
Kaduna	2,712	170	1,635,453
Kano	7,790	496	1,794,358
Katsina	1,256	99	1,216,604
Kebbi	898	91	692,104

Table 1 continued

State	Small	Medium	Micro
Kogi	827	17	967,431
Kwara	164	62	717,909
Lagos	11,044	619	3,224,324
Nasarawa	1,098	22	382,086
Niger	1,258	100	977,240
Ogun	1,690	104	1,165,848
Ondo	1,805	194	1,026,770
Osun	2,247	25	1,356,174
Oyo	7,468	519	1,864,954
Plateau	2,070	110	786,504
Rivers	2,981	41	1,749,911
Sokoto	631	210	700,106
Taraba	891	69	513,973
Zamfara	577	16	722,360
Fct	2,244	446	482,365
Total	68,168	4,670	36,994,578

Source: SMEDAN and NBS (2013).

### Trend in Percentage Share of SMEs in Deposit Money Banks' Total Credit to the Economy

Figure 1 shows that the rate of percentage share of SMEs in total credit granted to the economy by deposit money banks in Nigeria has experienced up and down overtime. From 3.2% in 1984, it rose significantly to 20.2% in 1988. A sharp increase was also experienced between 1990 and 1992 as it stood at 49%. Since then, it has remained on the decline state with some marginal increase intermittently.

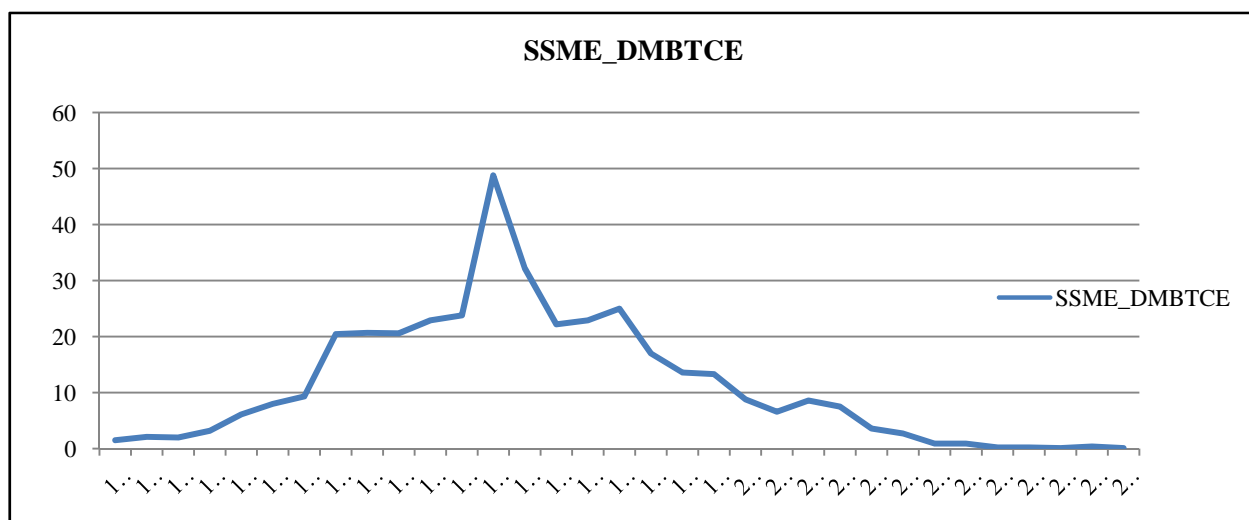


Figure 1. Trend in percentage share of SMEs in deposit money banks' total credit to the economy (1980-2012). Source: Author's computation 2016.

## Methodology

### Data Type and Sources

This paper used the secondary data which were sourced from the Central Bank of Nigeria 2013 Statistical Bulletin and World Bank data bank online. The data span the period from 1981 to 2012.

### The Model

This paper uses a vector autoregressive (VAR) model. Unlike other authors who have worked on the same issue, we argued that the relationship between economic growth and SMEs financing may pose some endogeneity problems. Also, we argued that inflation may play a role on the effect of SMEs financing on economic growth. Hence, we adopt a VAR model to identify the feedbacks from the variables in the model. The VAR model is presented below.

$$\begin{aligned}
 GDP_t &= c_1 + \sum_{i=1}^p \sigma_i GDP_{t-i} + \sum_{j=1}^p \pi_j \ln CLSME_{t-j} + \sum_{u=1}^p \phi_u INF_{t-u} + \sum_{w=1}^p \delta_w Money_{t-w} + \sum_{k=1}^p \beta_k INT_{t-k} + \varepsilon_{1t} \\
 \ln CLSME_t &= c_2 + \sum_{i=1}^p \sigma_i \ln CLSME_{t-i} + \sum_{j=1}^p \pi_j GDP_{t-j} + \sum_{u=1}^p \phi_u INF_{t-u} + \sum_{w=1}^p \delta_w Money_{t-w} + \sum_{k=1}^p \beta_k INT_{t-k} + \varepsilon_{2t} \\
 INF_t &= c_3 + \sum_{i=1}^p \sigma_i INF_{t-i} + \sum_{j=1}^p \pi_j GDP_{t-j} + \sum_{u=1}^p \phi_u \ln CLSME_{t-u} + \sum_{w=1}^p \delta_w Money_{t-w} + \sum_{k=1}^p \beta_k INT_{t-k} + \varepsilon_{3t} \\
 Money_t &= c_4 + \sum_{i=1}^p \sigma_i MONEY_{t-i} + \sum_{j=1}^p \pi_j GDP_{t-j} + \sum_{u=1}^p \phi_u \ln CLSME_{t-u} + \sum_{w=1}^p \delta_w INF_{t-w} + \sum_{k=1}^p \beta_k INT_{t-k} + \varepsilon_{4t} \\
 INT_t &= c_5 + \sum_{i=1}^p \sigma_i INT_{t-i} + \sum_{j=1}^p \pi_j GDP_{t-j} + \sum_{u=1}^p \phi_u \ln CLSME_{t-u} + \sum_{w=1}^p \delta_w INF_{t-w} + \sum_{k=1}^p \beta_k Money_{t-k} + \varepsilon_{5t}
 \end{aligned}$$

where GDP refers to the growth of gross domestic product, and was used as proxy for economic growth, and it was sourced from World Bank data.  $\ln CLSME$  is log of commercial bank loan to small and medium enterprise, and it was sourced from CBN. Also, inflation, interest rate, and money supply were added as control variables. INF is inflation; it was sourced from World Bank data. Money is growth of broad money supply; it was sourced from World Bank data. INT is nominal interest rate; it was also sourced from World Bank.

### Estimation Technique

In order to estimate the VAR, the time series properties were first examined using ADF unit root test. This was to ascertain if the series have unit root or not. If the series are not stationary at level, it is then tested at the first difference of the series. After this, a co-integration test uses Johansen co-integration test. If the series are co-integrated, we estimate a vector error correction model; if not, we estimate the unrestricted VAR in their difference. However, if the series are stationary at level, a VAR at the level of the variables can be estimated.

## Results and Discussion

### Unit Root Test

The result of the stationarity test is presented and discussed in this section. The ADF is tested based on the assumption of intercept and trend. The test was carried out using optimal lag length of 7. As shown in Table 2, all the series were stationary at their level. Given this, we estimate the VAR at level.

### Results of the VAR Model

In this section, we will only present a discussion of the results on economic growth and SMEs financing.

**Economic growth.** The effect of SMEs financing and other control variables on economic growth are discussed in this section. As shown in Table 3, there is a positive relationship between the SMEs financing, proxied by commercial bank credit to SMEs, and the growth of the economy, proxied by the growth of GDP. This shows that SMEs financing positively influenced economic growth. Also, the growth of money supply has

a negative effect on economic growth. This is against the expected result. However, the growth of money supply can increase the inflation rate in the country, which will eventually negatively affect economic growth. The result is also significant. Interest rate also has a positive relationship with the growth of the economy. As expected, there is a negative relationship between inflation and the growth rate of the economy. The result is also significant.

Table 2

*ADF Test in Level Data*

Variables	At level					Remark
	Intercept and trend					
	Critical value			T-Stat	Prob.	
	1%	5%	10%			
GGDP	-4.284580	-3.562882	-3.215267	-5.222650	0.0010***	I(0)
LCLSME	-4.616209	-3.710482	-3.297799	-5.618661	0.0017***	I(0)
GMONEY	-4.296729	-3.568379	-3.218382	-3.671635	0.0403**	I(0)
INT	-4.356068	-3.595026	-3.233456	-4.176064	0.0148**	I(0)
INFLATION	-4.296729	-3.568379	-3.218382	-3.449779	0.0637*	I(0)

Note. \*\*\*indicates stationary at 1%; \*\*indicates stationary at 5%; \*indicates stationary at 10%.

Source: Author's computation 2017.

Table 3

*Unrestricted VAR Result*

	GGDP	LCLSME	GMONEY	INT	INFLATION
GGDP	0.020779	677.0154	-0.442343	0.032032	-0.709216
	(0.18637)	(748.850)	(0.35579)	(0.10637)	(0.38845)
	[ 0.11149]	[ 0.90407]	[-1.24325]	[ 0.30113]	[-1.82578]
	6.88E-05	0.201454	-9.36E-06	1.96E-05	-8.19E-05
LCLSME	(4.9E-05)	(0.19574)	(9.3E-05)	(2.8E-05)	(0.00010)
	[ 1.41140]	[ 1.02922]	[-0.10062]	[0.70399]	[-0.80694]
	-0.017384	-524.6723	0.552873	0.006355	0.066392
	(0.09243)	(371.387)	(0.17645)	(0.05275)	(0.19265)
GMONEY	[-0.18808]	[-1.41274]	[ 3.13324]	[0.12047]	[0.34463]
	0.591102	1791.448	1.225025	0.442653	0.904983
	(0.32437)	(1303.32)	(0.61924)	(0.18513)	(0.67606)
	[ 1.82234]	[ 1.37453]	[ 1.97829]	[2.39101]	[1.33861]
INFLATION	-0.052536	-115.3213	-0.193124	0.058028	0.433816
	(0.08499)	(341.515)	(0.16226)	(0.04851)	(0.17715)
	[-0.61811]	[-0.33768]	[-1.19020]	[1.19619]	[2.44884]
	-7.188581	11490.66	-3.353996	8.159770	0.300024
Constant	(4.90273)	(19699.5)	(9.35966)	(2.79825)	(10.2186)
	[-1.46624]	[ 0.58330]	[-0.35835]	[ 2.91603]	[ 0.02936]

Note. Standard errors in ( ), t-statistics in [ ]. Source: Author's computation.

**SMEs financing.** The effect of economic growth and other control variables on SMEs financing is discussed in this section. Table 3 shows that economic growth has a positive relationship with SMEs financing, but the result is not significant. Also, a negative relationship exists between growth of money supply and SMEs financing. This is against the expected results. However, the result is not significant. A positive relationship

exists between interest rate and SMEs financing. An increase in interest rate may increase the funds available to banks to lend, and thereby increasing credits made available to SMEs. The result is however not significant. In addition, inflation has a negative relationship with SMEs financing. This is in line with the expected result but it is not significant.

**Impulse response function.** In this section, only the response of GDP to shock in other variables will be discussed. As shown in Figure 2, a positive shock on inflation will lead to a decline in GDP until the fourth period, and becomes marginally positive thereafter. Also, one positive shock in the growth of money supply will lead to a decline in GDP until sixth period, and remains marginally negative thereafter. However, a positive response from GDP is observed to a positive shock in SMEs financing throughout the periods though it became marginal after the fifth period. A similar result was also found in the response of GDP to shock in interest rate. The results were consistent with the VAR results.

### Diagnostic checks

**Stability test:** The AR Roots Graph reports the inverse roots of the characteristic AR polynomial. The estimated VAR is stable if all roots lie inside the unit circle. Figure 6 shows that all roots lie inside the unit circle which is an indication that the VAR model is stable.

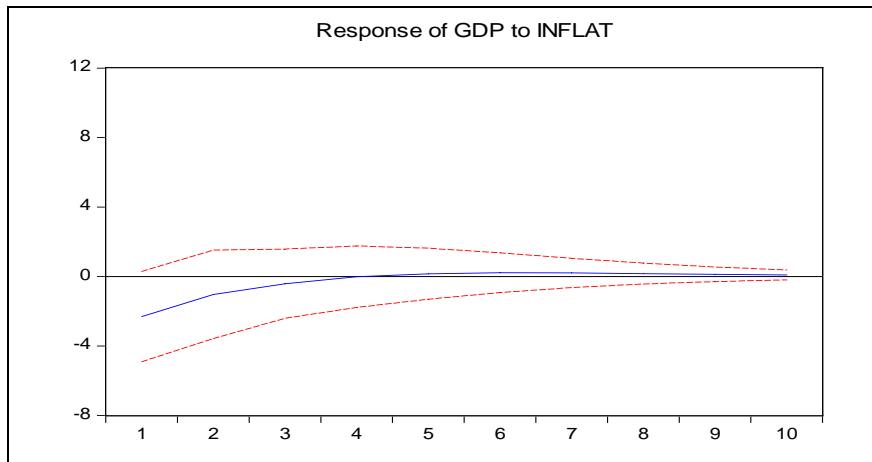


Figure 2. Response of GDP to shock in inflation.

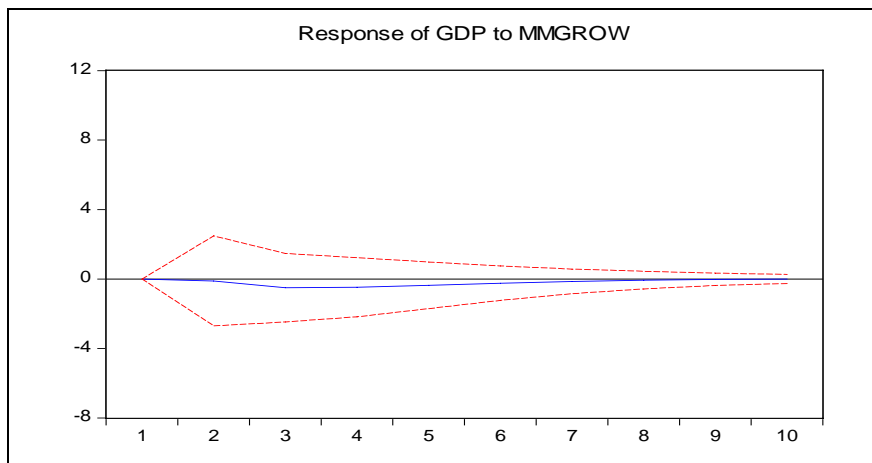


Figure 3. Response of GDP to shock in GMONEY.

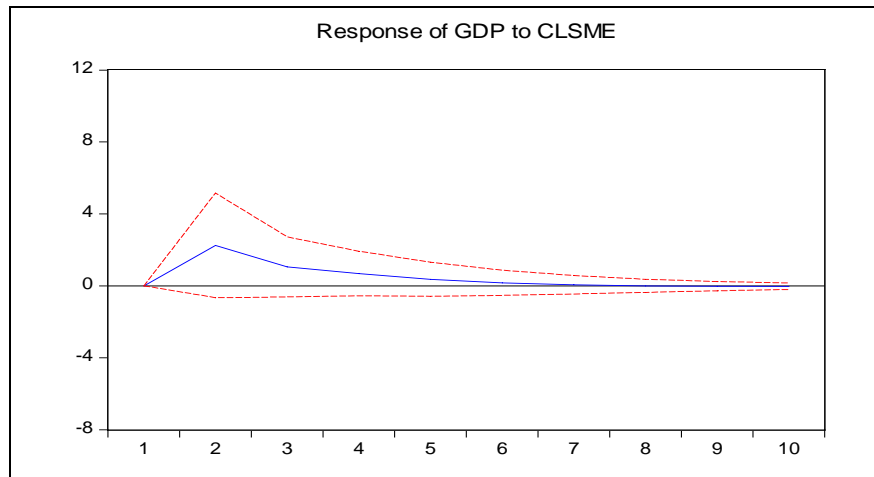


Figure 4. Response of GDP to shock in LCLSME.

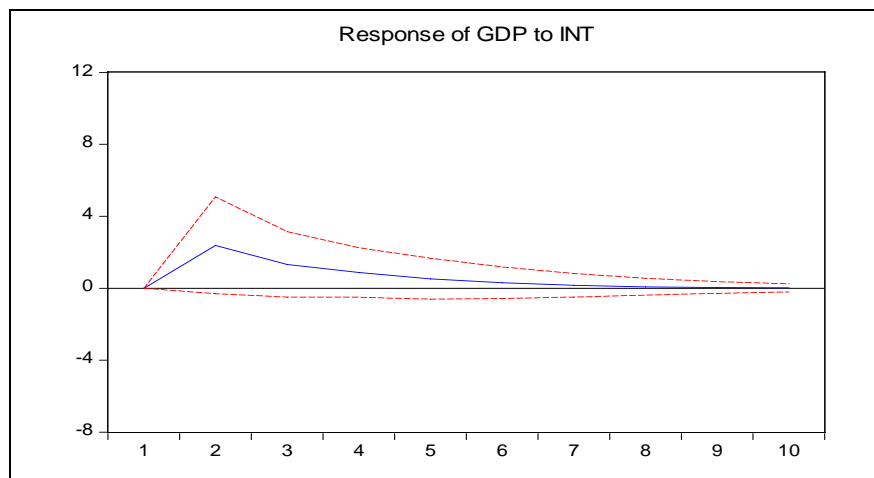


Figure 5. Response of GDP to shock in INT.

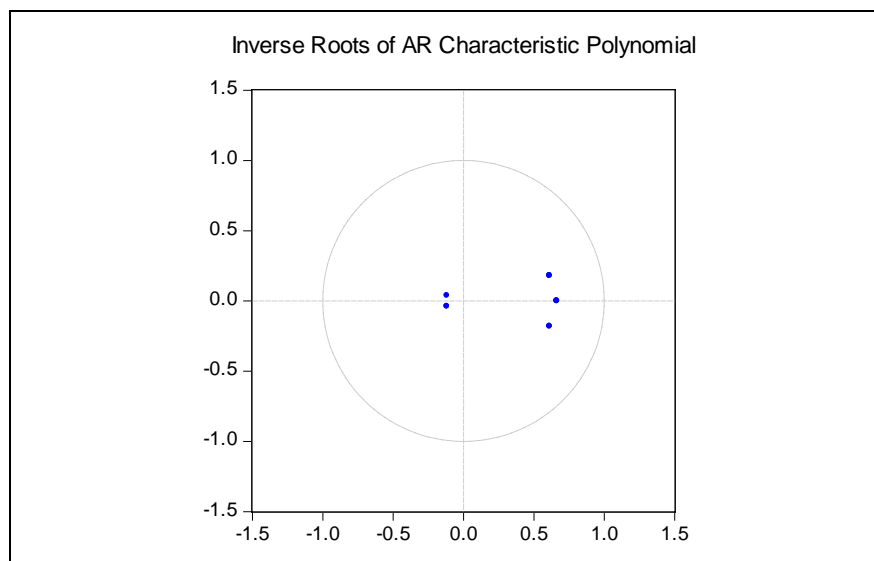


Figure 6. AR Roots Graph.

Diagnostic checks: To validate the assumptions of the model, diagnostics checks were conducted. The main residual checks conducted are the heteroscedasticity test, using White's test with no cross terms, and the serial correlation test which was tested using the Lagrange Multiplier (LM) test. The Diagnostic test results are shown in Table 4 below:

Table 4

*Diagnostics Checks*

TEST	Null hypothesis	T-statistic	Probability
White (Chi-sq.)	No conditional heteroscedasticity	151.5145	0.4500
Lagrange Multiplier (LM)	No serial correlation	20.05520	0.7439

Source: Author's computation.

### Conclusion and Recommendation

This paper was written to investigate the relationship between economic growth and SMEs financing in Nigeria. Vector autoregressive model was used in order to avoid the problem of endogeneity. ADF unit root test was used to ascertain the time series properties of the series. The result shows that all the series were stationary. Also, the result shows a positive relationship between SMEs financing and economic growth. Also, though inflation has a negative effect on SMEs financing, it still significantly influences economic growth. This paper therefore concludes with the recommendation that there is a need for government to intensify efforts to increase SMEs financing in the country. This can be done through introduction of a special intervention fund for SMEs in the country.

### References

- Abereijo, I. O., & Fayomi, A. O. (2005). Innovative approach to SME financing in Nigeria: A review of small and medium industries equity investment scheme (SMIEIS). *Journal of Social Sciences*, 11(3), 219-227.
- Adebisi, A., Sunday, G. C. A., & Ofuani, A. B. (2015). Challenges of finance and the performance of small and medium enterprises (SMEs) in Lagos state. *Developing Country Studies*, 5(8), 46-57.
- Afolabi, M. O. (2013). Growth effect of small and medium enterprises (SMEs) financing in Nigeria. *Journal of African Macroeconomic Review*, 3(1).
- Akingunola, R. O. (2011). Small and medium scale enterprises and economic growth in Nigeria: An assessment of financing options. *Pakistan Journal of Business and Economic Review*, 2(1).
- Aryeetey, E., & Ahene, A. (2004). Changing regulatory environment for small-medium size enterprises and their performance in Ghana (CRC Working Paper, No. 30594). Centre on Regulation and Competition (CRC).
- Business Statistics. (2016). Briefing paper number 06152. *House of Common Library*. Retrieved from <http://www.parliament.uk/commons-library> | [intranet.parliament.uk/commons-library](http://intranet.parliament.uk/commons-library) | [papers@parliament.uk](mailto:papers@parliament.uk) | [@commonslibrary](mailto:@commonslibrary)
- Capital for Globalizing Companies. (2015). State of SME Finance in the United States in 2015. TradeUp Capital Fund and Nextrade Group, LLC Central Bank of Nigeria 2013 Statistical Bulletin. Abuja, Nigeria.
- Ebiringa, O. T. (2011). Entrepreneurship venturing and Nigeria's economic development: The manufacturing sector in focus. *Journal of Business Management & Economic Research*, 2(6), 376-381.
- European Commission. (2003). Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises 12. *Official Journal of the European Union*, 124(36).
- International Finance Corporation. (2006). Small and medium enterprises market reports.
- Nwachukwu, A. C. (2012). The role of entrepreneurship in economic development: The Nigerian perspective. *European Journal of Business and Management*, 4(8), 96.
- OECD. (2004). Promoting entrepreneurship and innovative SMEs in a global economy. *Second OECD Conference of Ministers Responsible for SMEs* (Executive Summary of the Background Reports). Istanbul.



- Olowe, F. T., Moradeyo, O. A., & Babalola, O. A. (2013). Empirical study of the impact of microfinance bank on small and medium growth in Nigeria. *International Journal of Academic Research in Economics and Management Sciences*, 2(6), 116.
- Onugu, B. A. N. (2005). Small and medium enterprises (SMEs) in Nigeria: Problems and prospects (Unpublished Dissertation for a Doctor of Philosophy in Management Award). St. Clements University, Nigeria.
- Okpara, J. (2011). Factors constraining the growth and survival of SMEs in Nigeria: Implications for poverty alleviation. *Management Research Review*, 34(2), 156-171.
- Robu, M. (2013). The dynamic and importance of SMES in economy. *USV Annals of Economics & Public Administration*, 13(1).
- Safiriyu, A. M., & Njogo, B. O. (2012). Impact of small and medium scale enterprises in the generation of employment in Lagos state. *Kuwait Chapter of the Arabian Journal of Business and Management Review*, 1(11), 107.
- Savlovski, L. I., & Robu, N. R. (2011). The role of SMEs in modern economy. *Economia, Seria Management*, 14(1), 277-281.
- Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) and National Bureau of Statistics. (2013). SMEDAN and National Bureau of Statistics collaborative survey (Selected Findings). Abuja, Nigeria
- Subhan, Q. A., Mehmood, M. R., & Sattar, A. (2013). Innovation in small and medium enterprises (SME's) and its impact on economic development in Pakistan. *International Business and Social Sciences Research Conference*, 3-4.



Chinese Business Review  
Volume 15, Number 12, December 2016

David Publishing Company  
616 Corporate Way, Suite 2-4876, Valley Cottage, NY 10989, USA  
Tel: 1-323-984-7526, 323-410-1082; Fax: 1-323-984-7374, 323-908-0457  
<http://www.davidpublisher.com>, [www.davidpublisher.org](http://www.davidpublisher.org)  
[economists@davidpublishing.com](mailto:economists@davidpublishing.com), [business.review.USA@hotmail.com](mailto:business.review.USA@hotmail.com)

